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EDITORIAL

As We See It

Washington officials speak more and more gravely about a national "emergency." They are said to be far from satisfied with the degree in which the rank and file are impressed by all these outgivings from Olympus. Steps have been taken and are being taken to try to do by fiat much that should be accomplished, if it must be accomplished at all, by other means. This tendency to adopt the techniques of the totalitarian governments, the spread of whose influence we are trying to stem, appears to be motivated in part by the notion that in this way the American people can be "convinced" of the magnitude of the danger to which we are now said to be exposed, and in part by a fear that the great rank and file would be offended by steps which are fitting only in the presence of a "great national emergency" such as that by which we are now said to be faced but are stubbornly unaware of at present.

So it is that we hear more and more about "controls," "allocations," "restrictions," and all the rest that goes with an all-out war economy. But so it is also that we observe more and more wincing and relenting and refraining as respects certain other interferences with the natural flow of forces. Thus we find the "friends" of the veterans willing enough to condone the existing system of "benefits," which have long been a stench in the nostrils of all decent men, even fair-minded veterans, but even to extend the system. Thus, too, subsidies to the farmers, and the various other "benefits" accruing to numerous elements in the population are being eyed

Continued on page 76

Trends in American Fiduciary Fields

By MAYO ADAMS SHATTUCK*
Hausserman, Davison & Shattuck, Attorneys, Boston, Massachusetts

Boston attorney lists as leading trends in fiduciary field: (1) an enormously increased aggregation of fiduciary funds; (2) a rapidly decreasing average size of fiduciary portfolios; (3) a progressive breaking-up of private proprietorship of many sorts; and (4) a continuing decrease in interest rate return on investments, along with decrease in value of dollar. Says it appears, through taxation, "we have apparently decided as a nation to eliminate the man of wealth." Notes broadening of powers of trustees and spread of use of common trust funds.

It is axiomatic among lawyers that the future is to be estimated in the light of the past. Lawyers, and some other people are inclined, also, to segregate the past into well marked periods, and to generalize about those periods in broad and sweeping terms. Very probably that is an erroneous procedure; each fleeting moment of history moves imperceptibly into the next fleeting moment of posterity; to mark off precise areas of time and to describe them in sweeping terms must be just as misleading as the summary classification of mankind according to races, or of plants according to leaf structure, or of animal matter according to the number of links in the backbone.

Mayo A. Shattuck

Yet there are some of us who have lived long enough to remember the comparative placidity of economics, society and the law during the so-called Victorian era. No one seems to agree as to when that good Queen-Empress died; the actual funeral took place in 1901, but

Continued on page 34

*An address by Mr. Shattuck at the 39th Anual Convention of the Investment Bankers Association of America, Hollywood, Fla., Nov. 30, 1950.

The Investment Bankers Association of America Holds 39th Annual Convention

Meeting at Hollywood Beach Hotel, Hollywood, Fla., Nov. 26-Dec. 1, addressed by retiring President, Albert T. Armitage and newly elected President, Laurence M. Marks; also Leon H. Keyserling, Holgar J. Johnson, Clifton W. Phalen and Mayo Adams Shattuck. Texts of addresses, also Committee reports, given in this issue.

The 39th Annual Convention of the Investment Bankers Association of America was held at the Hollywood Beach Hotel, Hollywood, Fla., from Nov. 26-Dec. 1, inclusive. The Association elected as President for the ensuing year Laurence M. Marks of Laurence M. Marks & Co., New York City, who succeeds Albert T. Armitage of Coffin and Burr, Inc., Boston. The Vice-Presidents elected were Russell D. Bell of Greenshields & Co., Inc., Montreal; Walter W. Craigie, F. W. Craigie & Co., Richmond; Mark C. Elworthy, Elworthy & Co., San Francisco; John F. Fennelly, Glore Forgan & Co., Chicago; and Joseph T. Johnson, The Milwaukee Company, Milwaukee.

Laurence M. Marks

The principal speakers at the Convention, in addition to Albert T. Armitage, the retiring President, and Laurence M. Marks, the incoming President, were Leon H. Keyserling, Chairman, Council of Economic Advisers; Clifton W. Phalen, Vice-President, American Telephone and Telegraph Company; Holgar J. Johnson, President, Institute of Life Insurance, and Mayo Adams Shattuck, of Hausserman, Davison & Shattuck, Attorneys, Boston.

Because the two-day Public Education Forum scheduled prior to the annual convention in 1949 was so well received, one day of the convention program was this year given over to the Public Education Committee which had again scheduled a Public Education Forum.

The Public Education Committee recommended that the IBA have a new moving picture made to tell the story of the saving-investing process and the role of the

Continued on page 33

IBA PICTORIAL INSERT—Pictures of incoming Officers and Governors of the Investment Bankers Association of America, also candid shots taken during the Association's 39th Annual Convention at Hollywood, Fla., are on pages 45 to 60, inclusive

The Security I Like Best

A continuous forum in which, each week, a different group of experts in the investment and advisory field from all sections of the country participate and give their reasons for favoring a particular security.

(The articles contained in this forum are not intended to be, nor are they to be regarded, as an offer to sell the securities discussed.)

This Week's Forum Participants and Their Selections

B. F. Goodrich Company—August Huber, Market Analyst, Spencer, Trask & Co., New York City. (Page 2)

Montana Power Company—James H. Young, President and Treasurer, J. H. Young & Co., Inc., New York City. (Page 2)

AUGUST HUBER

Market Analyst, Spencer Trask & Co., New York City

B. F. Goodrich Company

B. F. Goodrich possesses the attributes of (1) basic growth; (2) highly diversified products; (3) excellent management; (4) strong finances; (5) is well situated to participate in a garrison economy; (6) current 5.6% yield, and (7) an apparently favorable excess profits tax base which should permit a relatively high level of earnings under prospective tax conditions.


August Huber

A leader in the tire and tube business—with major motor car and farm equipment manufacturers as customers—the company has expended substantial sums in research and development. This program has been highly successful. Through the development of profitable non-tire lines, Goodrich has turned in the outstanding postwar performance in the industry. Large markets have been developed in diverse fields—aeronautical, automotive, chemical and plastic industries.

For example, in aviation, Goodrich produces heated de-icers, while Avtrim and Flight rigs and tandem twin tires enable super bombers to land on ordinary runways.

Apart from regular tires the company has developed the tubeless puncture sealing tire—the premium tire of the future. In the automotive line, Goodrich also produces batteries, complete brake wheel, tire and tube assemblies, and Koroseal upholstery for heavy duty wear in convertibles, buses, taxis, etc.

Goodrich "Koroseal" is widely used in home upholstery, household use, and apparel—aprons, table cloths, rainwear, shower curtains, rubberized products, hoses, etc. It also insulates electric cables on ships, tanks and aircraft.

Superior products for industry include Hycar rubber (used as a base material, adhesive, plasticizer, and modified for phenolic resine); Goodrite p.e.p.s., a highly adhesive spray sticker; Geon polyvinyl cables which resist flame, grease, oil and solvents; all types of conveyor belts and other specialized products for sale to shipping, drugs and hospital outlets.

Goodrich's "cold rubber" represents another important discovery. This is particularly durable, being abrasion-resistant and longer-wearing. Another recent discovery is a thermo-setting resin type adhesive to bind materials to metals. This can be used for brake linings, eliminating the use of rivets, and is said to double the life of the linings.

The B. F. Goodrich Chemical Company has also introduced a number of new organic chemicals for the agricultural, chemical and pharmaceutical industries.

Other standard products of importance are all types of footwear with rubberized features.

These examples touch on only a few of Goodrich's diverse products, which number in the hundreds, and encompass most industrial fields.

As Mr. Collyer, President, has said: "On the highways, railways, waterways and airways; in factories and mines; on farms and in cities; in the house and at the office, you will find products of B. F. Goodrich in action."

The diversity of products, through development and research, and the company's regular established lines, should enable full participation in the country's general economic trends. As a result, sales this year should reach an all-time record high of over $500,000,000 compared with $388,000,000 in 1949.

Earnings for 1950, after reserves of about $8.00 per share, *are expected to approximate $20.00 per share*—after 42% taxes.

The company is ostensibly well situated for war or peace. During World War II, Goodrich sales volume more than doubled that of the prewar years. Goodrich pioneered in the development and use of synthetic rubber and was one of the largest producers in the last war. It would occupy a major position again.

Based on the proposed excess profits tax bill, as passed by the House, Goodrich would evidently fare very well. *The company's base would be about $17.00 per share.* In other words, this amount could be earned after 45% normal and surtaxes, even with "excess profits" being taxed 100%.

Financially, there has been a good build-up. As of June 30, 1950, total current assets were six times total current liabilities and net working capital of $162 million compared with $113 million in 1946. Since 1941, the book value per share has increased from $35.00 to $133.00.

Dividends totaled $6.50 per share for 1950, compared with $5.50 the year before. Disbursements have been conservative relative to earnings, as retained earnings were used for expansion and new-product development. Payments could be somewhat more liberal in relation to future earnings.

Currently selling at 115, Goodrich common yields 5.6% on the 1950 dividend. It is selling at less than six times probable 1950 earnings, and less than seven times its present apparent excess profits tax base of about $17.00 per share. The strong basic position of the company in a war or peace economy, and its underlying growth trend, through new-product diversification, augurs well for the longer-term future.

Stockholders will vote on Jan. 3, 1951, on the proposal to split the shares on a 3-for-1 basis.

JAMES H. YOUNG,

Pres. and Treas.
J. H. Young & Co., Inc.
New York City

Montana Power Company

The security I like best is Montana Power Company common stock for the following basic reasons:

(1) It is a low cost hydro-electric and natural gas system with a rate structure below the average.


James H. Young

(2) Serves an area covering about 75% of the state of Montana averaging about 90,000 square miles including part of Idaho.

(3) Relations with regulatory commissions and customers are very favorable.

(4) Management is able, conservative and at the same time imaginative.

(5) Common stock equity is approximately 39%, a figure among the highest of all the utility companies in the U. S.

(6) Montana's average income per capita is 27% higher than the national average and cash income per farm last year was over twice the U. S. average. Latest census report indicated population growth in Montana since 1940 of 5%.

(7) Power load diversified among agricultural and industrial users such as copper and zinc mining operations, packing plants, sugar refineries, cement factories, flour mills and other industrial, commercial and residential users.

(8) Residential revenues have been constantly increasing with less dependence on industrial business. Residential and commercial revenues increased from 28.7% of total revenues in 1929 to 45.1% in 1949.

(9) Due to low operating ratio about 25% of gross revenues are carried down to income available for common stock. This is exceptionally high when contrasted with the national average.

(10) Tie-in arrangements with the Northwest Power Pool and Utah Power and Light Company on a reciprocal basis is advantageous to Montana Power in selling excess power when available particularly to Utah Power and Light which is a higher cost steam property.

(11) Progressive action of management in developing natural gas outlets by building up sources of supply and extending pipe lines has materially increased revenues of company.

An interpretation of the above mentioned basic facts convinces me that Montana Power Company is a sound enterprise with increasing growth possibilities and the present market price of about

Continued on page 86

There Is No Peaceful Solution To Russia's Aggression!

By MELCHIOR PALYI

Dr. Palyi, comparing Korea with Sudeten crisis in 1939, finds situation similar, and asserts Europe's position is untenable if Asia is lost. Says UN has already been turned into an instrument for moral coverage of Bolshevist aggression, and foresees this country burdened with all-out armaments and all-round regimentation. Sees Russia's policy as way to stay out of open war yet do all the damage by use of its satellites, and then play part of virtuous intermediary.

I.

In my article on "Economics of Little Pearl Harbor," which was published in the Aug. 3, 1950, issue of the "Commercial and Financial Chronicle," I made the following statement: "With inexhaustible optimism, Washington appears to assume that as soon as the Yanks arrive at the (Korean) front in force they will outnumber or at least outgun the enemy. But has he no reserves to match ours? North Korea should be capable of putting 500,000 men in the field; the Russians could supply them profusely. And what if in the meantime a Chinese (Communist) 'volunteer' army arrives, too? Indications are that Moscow is driving China into war against the West, using Formosa as the immediate reason? We still may have a few surprises to face."

Dr. Melchior Palyi

If "outsiders" who have no access to direct information could foresee the danger of a vast army meeting our forces in North Korea—how could the Administration in Washington overlook it? The incompetence of our national management is fully documented by its unparalleled ability to be taken by surprise—unprepared diplomatically as well as militarily.

It is a commonplace that the Korean crisis has reached the point at which the Sudeten crisis stood in September, 1949, and with almost identical implications. The analogy is striking. Then as now, an unprepared West was thoroughly frightened. Then as now, Britain led into appeasement, supported by France. Then as now, the British were ready to sacrifice some country that was to be protected by treaty or covenant. Then as now, a pseudo-humanitarian peace-at-any-price carried overwhelming support in Western Europe, a rationalization to cover up the pitiful weakness of the "democratic Welfare State," the weakest of all political systems.

Anyhow, we cannot escape any longer the choice between two alternatives:

(1) Swallowing our pride and accepting some sort of *modus vivendi* with Red China; or

(2) threatening and if necessary declaring all-out war on the aggressor, come what may.

Mao's Terms

On what terms could we appease a victorious Mao? By officially recognizing and seating him in the UN and restoring North Korea to Bolshevism? Why should he accept such limited goals while his hordes are advancing? Even if he does, the war would continue, open or disguised, in Korea, Tongking, Malaya, Tibet, and where else. In fact, any such "deal" invites him to repeat the performance. To say the least, we would have to man and equip huge armies somewhere along the 38th parallel, in Indo-China, etc., and to live in permanent tension.

Actually, Mao would not be worth his salt if he voluntarily underwrote such "modest" terms—even with tongue in cheek. Short of an all-out war threat, he is likely to insist on the whole of Korea and Formosa. More likely than not, he may claim reparations for the damage we did in Korea. He could be scarcely less impudent now than he was six months ago, when as a price for diplomatic recognition by Britain he demanded, among other things, that Hong Kong should cease to offer asylum to refugees. He may not put in the additional request that we cease to provide weapons to the Viet Nam; that he should have a decisive say in the peace treaty with Japan; and so forth. ("Asia for the Asiatics," Japan's imperialistic slogan, will do.)

Suppose that we offer to abandon North Korea, throw Formosa into the UN's lap, etc., and couple the offer with an ultimatum: to comply, or else. That would sound like forcefulness combined with appeasement. But it is not likely that our British and French "friends" will go along the road of bluffing. Bluffs can be called. Are we then willing to carry out the threat? And even assuming that Mao obliges us: how much trust can be put in his words, for how long?

Permanent Red occupation of North Korea makes Korea a permanent battleground. If today they can muster a million men there, they can let loose tomorrow an equal number on Indo-China. (Their new railroad through Yunnan has just been completed. Appeasement may postpone the crucial decision for a short while. Are we to fight for Indo-China? We would be up against the most expensive jungle war in all history. If not, Siam is next—with some 400 miles of scarcely defensible borders, and a Chinese Communist minority ready to revolt.

Continued on page 72

INDEX

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The Business Outlook

By Q. FORREST WALKER*
Economist, R. H. Macy & Co., Inc.

After reviewing uncertainties in outlook due to low economic visibility and difficulties in defense planning, marketing economist says there is likely to be spotty business ahead on basis of assumptions that: (1) full scale mobilization will not be required; and (2) defense program will be executed with minimum of unnecessary impairment of functioning of free civilian economy. Holds defense program is not guaranty of boom, and looks for price resistance as selling problem. Favors money and credit restraints rather than direct controls.

Low Economic Visibility

In these critical days, economic visibility is again particularly low. It is low because many fears, doubts and uncertainties about the future undermine business confidence. They make intelligent forward planning difficult. There are deep-seated apprehensions about the implications of our current foreign policies, the safe magnitude of defense plans, the rapidly growing controls of our economic life, the prospective tax burdens and the threat of "creeping inflation." Confidence is not improved by the continuation of wasteful and postponable government expenditures in this period of national emergency. Despite the great achievements of the private enterprise system, there are persistent overt and covert attacks on the wisdom of its direction and frequent presumptions that political "know-how" can produce better results. These are the kinds of uncertainties that breed economic unsettlement.

Q. Forrest Walker

Defense Program Uncertainties

Some of these uncertainties are of a long range character and will not be soon resolved. Others require early removal if we are to maintain reasonable economic stability during the near term future. The most urgent present need is clarification of our defense requirements, the kinds and character of economic controls essential to intelligent execution, and prospective costs and financing. Until we know more about this program, we cannot appraise the business outlook with any great assurance.

Difficulties of Defense Planning

We must frankly recognize, of course, that the formulation of a prudent defense program is not an easy task for political leadership nor for the military experts who frame the plans. The shifting course of military developments and international politics necessitates considerable flexibility. Under such conditions, some mistakes of judgment are inevitable; they are part of the costs of defense planning. Strategic needs are highly variable in character and quantity. Moreover, the best designed materiel of today may be made obsolete in short periods by technical improvements, or it may be unsuited for the particular theater of operations where it may be required. It takes time to formulate a program and detail its parts. Even when the blueprint is completed, very astute judgment must be exercised to determine what, when and how much should be produced.

Need for Specific Defense Goals

While we know the appropriations which have been made and the additions now asked, we know little about the rate of expenditure and what these expenditures will mean in terms of raw materials, finished product categories and the manpower required to produce them. Many industries cannot make confident operating plans when they do not know when and what defense demands will be made upon them. The economic atmosphere is surcharged with disturbing rumors, fantastic estimates of expenditures, fears about real and prospective shortages of materials, erratic price changes, official threats and warnings, and general confusion about defense requirements. Despite the obvious difficulties, it is clear that there is need for early decision on some reasonably specific defense goals and assumption of calculated risks for a definite advance period. There is no other way to remove this major uncertainty, to deflate extravagant business expectations, and to relieve unwarranted anxieties.

Control Uncertainties

Under the Defense Act of 1950, we have granted broad powers to control and direct the economy to facilitate the defense program. Except for credit restrictions, as yet there has been limited use of these new powers. Apart from threats to invoke more controls, the mere possibility of new and perhaps severe restrictions is not an unmixed blessing. Fears of controls have encouraged some minor speculation, but the main impact has been to stimulate a considerable amount of "protective buying" against orders now on hand. This has contributed to the firm and rising trend of the general price level. Until the defense program becomes more clearly defined, it is impossible to appraise adequately the necessity for new restrictions and the prospect for the easing or tightening of existing controls. This situation adds greatly to the hazards of making intelligent production plans.

Uncertainties About Taxes

There are limits to the magnitude of the defense load which the economy can carry under a condition of partial mobilization. We know that the costs will be large; and it has been rightly said that these costs must be met on a pay-as-you-go basis, or without recourse to deficit financing. This means higher taxes but it also means drastic curtailment of nondefense expenditures by the federal government and severe economies in state and local expenditures. If the added tax burdens are poorly conceived and inflationary in effect, we destroy incentive and add to defense costs. Obviously, it is vital that the tax burden should be within our ability to pay and it should not place undue limitations on the expansion of production facilities for which we may later have urgent need. At present, we do not know what these new tax liabilities will be and we may not know for several months. This is another uncertainty which makes confident forward planning difficult.

Forecast Assumptions

To formulate a judgment about the business outlook for the next six months, it is necessary to make several broad assumptions. It is here assumed that during this period full scale mobilization will not be required, but that partial mobilization will proceed at an accelerated rate. What this rate will be we do not know; but despite the ominous character of recent developments, it is unlikely that actual expenditures on defense contracts will greatly exceed the official estimate of a $30 billion annual rate by next June.

We are entitled also to assume that the present program will be executed with a minimum of unnecessary impairment of the free functioning of the civilian economy; that there will be sufficient political courage and public support to sustain intelligent monetary and fiscal measures to curb dangerous inflationary trends and to reduce non-defense and postponable public expenditures to safe levels; and that the use of direct controls will be strictly limited to measures required for armament purposes. Obviously, unwavering faith in our capacity to solve our problems underlies all these assumptions.

Abnormal Business Prior to Korea

Since the outbreak of Korean hostilities, much has been said and written about the difficulty of imposing a huge defense program upon a booming civilian economy. Less attention has been given to the unstable character of the preceding business expansion and the likelihood that under normal conditions there would have been an early, and perhaps substantial, contraction in business activity. The main supports of the pre-Korea boom were abnormal increases in automobile production and residential construction. This expansion was made possible by easy installment credit and large use of unsound credit methods in financing residential construction.

If some believed that a new era of uninterrupted and fantastic expansion had really arrived, that belief was not shared by experienced business men nor by business analysts with good historical perspective. Before Korea, the opinion was widely held that the automotive industry would soon return to more normal production levels. Competent authorities, viewing the historical cycles of

Continued on page 68

*An address by Mr. Walker at the 34th Annual Convention of the New Jersey Association of Real Estate Boards, Atlantic City, N. J., Dec. 8, 1950.

Let's Wash Up Our Bankrupt Foreign Policy

By HON. JOSEPH P. KENNEDY*
Former U. S. Ambassador to Great Britain

Mr. Kennedy declares our foreign policy is politically and morally bankrupt, leaving us without friends anywhere. Reasoning we cannot contain Communism all over the world, he urges we withdraw from Korea; stop squandering valuable resources in Germany; and instead build up our defenses in this hemisphere. Listing aid we have given and received from each UN nation, asserts it is no vehicle to enforce peace. Concludes "an Atlas, whose back is bowed and whose hands are busy holding up the world, has no arms to lift to deal with his own defense."

Lincoln in his famous Springfield speech said: "If we could first know where we are, and whither we are tending, we could better judge what to do, and how to do it."

Joseph P. Kennedy

It seems to me wise to see where we have come from V-J Day and where we are now. The objectives before us at that time were (1) to work out a just peace, (2) to create means for the preservation of peace, (3) to assist in the rehabilitation of a devastated world. In moving towards those objectives, we assumed in 1945 that they were common to all the Allied nations. We learned in a short time that this was not the case, but that in Communism a force was at work which was intent on dominating Europe and Asia for its own ends. Our problem since that time has been how to deal with this drive of Communism.

The Need for Preserving Our Strength

As far back as March 18, 1946, I set forth in "Life" magazine what I considered should be the fundamentals of American policy. The first and foremost of these was that we should make and keep ourselves strong. Fundamental to any successful dealing with the world, was the maintenance here in the United States of a high standard of living. Whatever concrete actions might be suggested, to bankrupt this nation in the pursuit of them would mean our self-destruction. I was not against generosity—generosity within our means. I supported, for example, our initial three billion dollar loan to Britain. I went farther than that. I said in the N. Y. "Times" of March 4, 1946: "Financial aid to the United Kingdom . . . is and should be an outright gift." But from the start I had no patience with a policy that without due regard to our resources—human and material—would make commitments abroad that we could not fulfill. As Ambassador to London in 1939 I had seen the folly of this when the British made their commitment to Poland that they could not fulfill and have not yet fulfilled—a commitment that brought them into war.

I naturally opposed Communism but I said if portions of Europe or Asia wish to go Communistic or even have Communism thrust upon them, we cannot stop it. Instead we must make sure of our strength and be certain not to fritter it away in battles that could not be won.

Our Present Position

But where are we now? Beginning with intervention in the Italian elections and financial and political aid to Greece and Turkey, we have expanded our political and financial programs on an almost unbelievably wide scale. Billions have been spent in the Marshall plan, further billions in the occupation of Berlin, Western Germany and Japan. Military aid has been poured into Greece, Turkey, Iran, the nations of the North Atlantic Pact, French Indo-China, and now in Korea we are fighting the fourth greatest war in our history.

What have we in return for this effort? Friends? We have far fewer friends than we had in 1945. In Europe they are still asking for our dollars but what kind of friendship have we bought there? Is Western Europe determined to preserve for itself those ideals of democracy that we have been preaching? Put to the test now as to whether she will arm herself effectively, even with our aid, to deal with the Russian threat, is she showing the kind of determination and the kind of will that amounts to anything? Plans for economic unification have fallen apart in the light of nationalistic differences. French military power is only a shadow of its former self, and a strong minority of Communist sympathizers keeps France in endless political turmoil. The military strength of Britain is one-fourth of what it was in 1946 and she shows every inclination to avoid the heavy burdens that would be involved in rebuilding it. West Germany, to date, has revealed no disposition to develop effective military

Continued on page 89

*An address by Mr. Kennedy before University of Virginia Law School Forum, Charlottesville, Virginia, Dec. 12, 1950.

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

A noticeable rise took place in total industrial production last week with the return of clear weather to most of the storm areas of the country.

Output in the aggregate was considerably above the level of the corresponding period one year ago.

The steel situation continues tense this week with procurement difficulties mounting. Metalworking shops producing goods for the civilian market are increasingly out of luck in the matter of supplies, says "Steel," a metalworking magazine. All signs point to worsening supply conditions with acute scarcities threatened in the first half of 1951 unless curbs on civilian goods ease demand pressure. Producers are booked full for January and are not accepting orders beyond that month except on DO and other emergency ratings. As a result, civilian goods industries are accepting orders beyond that month except on DO and other turning in desperation to the premium markets for relief. Conversion mills, however, are booked solidly for months ahead and are turning away business. Gray market offerings are limited by the close control maintained over shipments by producing mills. A large part of the tonnage available in the gray market is important material.

Sweeping upward revisions in iron and steel prices continue, states this trade magazine of metalworking. Virtually all products are affected. Changes are being made in some extras as well as base prices, and it appears it will be another week or so before all producing companies have completed action on their schedules. As a general thing, the industry is following the lead of United States Steel subsidiaries in advancing prices. Adjustments in steel are being accompanied by advances on pig iron, scrap and other raw materials. Ferroalloys are coming in for revision. Meanwhile, the trade anticipates early application of new stiffer government regulations affecting prices, wages and production in general. Some observers expect a swing to mandatory supply ratings similar to the Controlled Materials Plan of the last war within the next 30 to 60 days, according to the above source disclosures.

Automotive production thus far this year exceeded the 7,500,000 vehicles it was expected to reach in the past week.

United States producers, it is reported, are moving into December with schedules "that seemingly belie the dark materials' problems confronting the industry."

"Ward's Automotive Reports" state that beyond December, production cutbacks are shaping up with schedules of the major producers being more or less geared to materials' restrictions ordered by the government. These, it adds, may well be accompanied by sizable employee layoffs.

Scare buying of automobiles during the past week or more has developed with the worsening of the situation in Korea, according to reports. Used-car prices have also shown greater firmness, reacting to the news which may be the forerunner of a likely cut in new-car production early in 1951.

Estimates place the figure of new cars in dealer hands or in warehouses at the close of this year around three-quarters of a million.

General Motors and Ford rejected a government plea to rescind price increases on 1951 model passenger cars. Both companies stated the request from the Economic Stabilization Agency was "impractical." An appeal was made by the agency after General Motors last week revealed it was going to raise prices about 5% on all its 1951 automobiles. Shortly thereafter, Ford announced price advances ranging from $87.50 on Ford cars to $165 on the highest priced Lincoln. General Motors disclosed specific

Continued on page 83

Investors Must Fight Enemies

By ROBERT S. BYFIELD*
Robert S. Byfield & Co.,
Members N. Y. S. E.

Mr. Byfield warns that enemies of free enterprise create their own effective folklore; and American investors are being sabotaged by mass of fables developed by Communists, Socialists, and so-called "liberals" for their own strategic purposes. Alleging that corporations are largely inarticulate in presenting their case, he urges investors to face issue boldly and intelligently.

At this critical hour it seems worthwhile to remember that American investors are definitely a part of our defense mechanism. Directly or indirectly, we provide the planes, the tools and the equipment so necessary for our industrial machine to function. It is our obligation and responsibility to make sure that so far as lies within our power there is as little interference with this investing process as possible.


Robert S. Byfield

It will be my task to view the investment problem externally; to see the house as a whole, its structure, its ability to withstand storms and stresses and perhaps examine the forces which are threatening its existence as well as assay their methods of attack. My subject has been announced as "What can I do as an investor to make free enterprise work?" and so let us ascertain or identify what attempts are being made to prevent it from working.

This is an age of fables, and particularly economic fables. The enemies of free enterprise, the profit and loss system, the American Way of Life (or whatever our particular national economy should be called) have developed a folklore or collection of fables to shape and control men's minds. Compared with them Paul Bunyan, Baron Munchausen, and the Brothers Grimm were pikers. Dillinger and Baby Face Nelson merely stole banks; the despoilers of free enterprise have a whole nation as the objective of their larceny. They have told many fables, but here we concern ourselves with only seven of them, viz.:

(1) The fable that the American form of capitalism is like other capitalisms.

This concept is utterly false. In our country industry did not become important in the early years of its existence. It is based upon a system of free agriculture, whereas in the principal countries of Western Europe the industrial revolution evolved in a monarchistic framework which itself developed from feudalism. There is no real tradition of free enterprise in Europe. Their industrial set-up is a low-wage, non-competitive system operating in normal times with an over-supply of labor and a shortage of raw materials, while American capitalism rests on plentiful raw materials and a scarcity of labor. We exploit machines, not men.

In Great Britain conditions prior

Continued on page 94

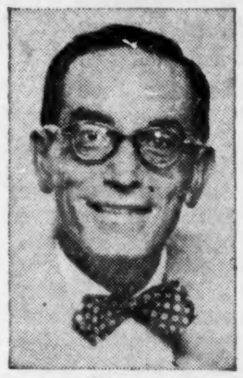
*A talk by Mr. Byfield in series, "You and Your Dollars," jointly presented by Town Hall, Inc., and Federation of Women Shareholders in American Business, Inc., Dec. 12, 1950.

Observations . . .

By A. WILFRED MAY

Items for the Investor's Year-End Tax Bill

This Yuletide season unfortunately being also tax-tide season —"and how" this year—we are putting into our readers' Christmas stocking a few fundamental bits of tax information. These are for the lay investaor, and even for them are offered largely by way of reminder ("see your lawyer" for a technical discourse and further details).


A. Wilfred May

Capital Gains and Losses

The timeliest tid-bit to give you is the reminder that *losses* on securities sold on the last day of the year are deductible within the year; but *gains* are not reportable until the following year unless they are sold for cash delivery.

Losses cannot be taken if a substantially identical security is purchased within 30 days before or after the sale. Thus, one cannot "replace" a security through the device of adding to his existing holdings before he makes the profit-cashing sale. Prohibited as wash sales to register losses or gains, are transactions between members of the same family, including husband, wife, ancestors, lineal descendants, brothers or sisters by whole or half-blood; between a corporation and its 50%-or-more shareholders; and where there is an agreement for later re-purchase.

However, in a joint return the gains of the husband may be offset by the losses incurred by the wife (although to preserve domestic bliss, it had better be arranged the other way around—namely, to offset gains of the wife by losses of the husband). The 1950 statute did not eliminate the right to split income; as far as the Treasury is concerned, husband and wife are one person.

Holding-Period Distinction

The differentiation of security transactions according to the length of time it has been held is again rendered a hot question because of the possibility of Congressional action under wartime stress. In the investor's status as taxpayer, his principal purpose should be to have any profit a long-term gain, and losses short-term. Short-term gains and losses are the result of securities held for six months. A long-term gain or loss requires a holding period of six months plus one day.

Short-term losses are subtractable from short-term gains or vice versa. Long-term profits and losses are reduced in half and netted. If you have a net short-term gain, you may reduce the amount by net long-term losses, the difference being taxable at ordinary rates. If you have both net short-term and long-term gains, the former are taxed at ordinary rates and the latter (after having been reduced by half) are added to ordinary income, or taxed at the alternative rate of 50%, whichever produces the smaller tax. If you have a net long-term gain and a net short-term loss, you are required to reduce the former by the latter. If you have both a net short-term loss and a net long-term loss, the two are added together; $1,000 thereof being subtracted from ordinary income, and the balance being permitted to be carried over for five years. This carryover may be applied against capital gains in those years, plus $1,000 in each year against ordinary income. In any event, there is an effective maximum ceiling of 25% on long-term capital gains.

Continued on page 90

To Defend America, We Must Avoid Inflation

By LEWIS H. BROWN*
Chairman of the Board, Johns-Manville Corporation

Opposing freezing of wages and prices as well as rationing for consumers, leading American industrialist holds, despite heavy military requirements, American industry can increase its capacity to care for current "Puppet War." Says present war situation may continue for two decades and annual budgets may reach $75 billion. Advocates, among other measures, more non-military economy, universal military training, lower tariffs and, above all, higher taxation up to $25 billion. Says improved tax pattern will help win war and concludes "we must quit raising wages and prices."

What is the situation that confronts America today? Communist Chinese armies are pouring into Korea. No one can predict the end result. I doubt if Stalin wants World War III now. I am sure we do not want to be bogged down in China. It is clear that anything one may say today may be made obsolete by the events of tomorrow.

Lewis H. Brown

We are starting a huge mobilization of men, materials, machines and money. Some people believe that this requires all-out direct controls of every kind—now. They advocate the freezing of wages and prices, and rationing for consumers.

I disagree with this view. Obviously the Cold War is over. Now we have a partial Puppet-War. It may last three, five, ten or more years. Who knows?

In many ways this offers a new and more difficult problem than we had in World War I or World War II. In any event it is different and hence it requires a different solution.

The main reason we have been having — not a monetary but a psychological — inflation is that important personages in Washington have let the American people believe that in this new kind of war we must have the same old system of controls that we had in World War II.

What is our Foreign Policy? As nearly as I can make out it is to oppose Communism and Russian Imperialism whenever it moves forward, anywhere, using the best means of opposition at our disposal, and within the limits of our capacity, successfully to oppose this aggression that threatens to enslave our civilization.

What is Stalin's Policy? Stalin knows that dictators cannot hold the loyalties of their people in the stress and strain of a losing war. Stalin is not likely to make the same mistake that Hitler made, through lack of patience. Stalin has often quoted Lenin who said that the way to destroy a capitalist country is to debauch its currency—to let inflation wreck the economy from within. Stalin probably plans to toss at us one Korea after another always through a satellite state while Russia itself remains ostensibly at peace.

I am convinced that Stalin believes the American people have not the fortitude to give up non-essential expenditures to offset, in part, the military expenditures made necessary by the prairie fires he plans to start in various parts of the world. Stalin may well be convinced that we do not have the courage in wartime to raise the taxes we need to pay for our military effort. He probably thinks we will do as we did before —go to deficit financing, through the banking system, thereby debauching our currency and bleeding ourselves white. Stalin is an Asiatic. He has infinite patience. I doubt if he is going to start World War III with the lesson in front of him of what happened to the Kaiser, Mussolini, Hitler and Tojo.

The one thing Stalin dreads is having the industrial cities of Russia smashed absolutely flat, for the Bolsheviks have promised the Russian people for 35 years that if they sacrifice enough in the present, they will in the future have a scale of living as good as that enjoyed by the people of America.

And tools, machines, power plants, factories and foundries are absolutely necessary to fulfill that Bolshevik promise.

If Stalin knew that we could exterminate 30,000,000 of the Russian people, it would not cause him to turn from his objective for one moment. But the threat of destruction of his machines—his industrial potential—well, that is what would be a losing war for the Communist party.

Now what do our leaders in Washington say we need to do to prevent Stalin from succeeding in this partial Puppet-War?

I regret to say that our leaders have not yet clearly told the American people what our plan is, or what its requirements are to be, or how we are to accomplish it.

But, as businessmen, we can't keep on waiting for an election to be over or for Congress to meet next year. We need some basis to make plans for our own businesses —even if its only a guess-estimate.

The Military Requirements

So, without having any "inside information," I am going to give you my best guess of what our military requirements are to be over the next two years, and what we should do to get the money to defend America and to defend our American dollar against Stalin's plan.

First as to Military Manpower: We have heard a lot of talk about increasing our armed forces to 2 million men, then 2½ million. Then, just before the elections, the President said 3 million. My guess is that before the end of the next two fiscal years we will have more than 4 million men in the armed forces. That's one-third of the forces we had at the end of World War II.

Second as to Ships: Fortunately our naval ships are coming out of the "mothballs" in fine shape. All they need is men, fuel, and supplies. We must convert and build more troop transports. We must build new type submarines. We must have many new naval aircraft to meet new requirements.

Third as to Airpower: It is my guess that we could today deliver atomic bombs to smash the industrial cities of Russia. And I hope we have plenty of bombs to do the job. But if our national policy is to fight a dozen Koreas instead, then we need a vast program of new airplanes and newly retrained men.

Fourth as to Materials: During the past five years we have read a lot about stockpiling strategic materials. But we haven't done enough about it. Now we have got to do something and our failure to shut off some of the boom of the past few years will make it harder on consumers now.

We have seen the steel industry harassed by government because it is "big" and the oil industry threatened with elimination of its tax allowance for discovery, drilling and depletion of oil wells. Steel and oil are the two basic strategic materials of war. If Stalin had in steel and oil what we have in America he might have long since started World War III. We need a reversal of attitude in Washington. Our government should help, rather than hinder, the rapid development of iron and oil and other strategic reserves in both North and South America.

But, aside from these points, we have, by and large, the materials we need for partial war.

Fifth as to Machines: In the last war our machine tool industry multiplied its output 10 times. In preparation for World War II we built 400 factories and munitions plants. Most of them are in existence and can be quickly activated. The productive capacity of our factories is at least 50% greater today, in terms of physical quantities, than it was in 1940.

Given a chance under free enterprise, American industry can further increase its capacity where needed and can, in any event, take care of all the military requirements of this partial Puppet-War with perhaps no more on the average than a 10 to 15% reduction of consumer goods, not including, of course, food.

Sixth as to Civilian Work Force: In 1940, our civilian work force, including agriculture and 8 million unemployed, was 55 million or about 42% of our population. Today our civilian work force of 63 million is much larger, and also about 42% of our population. Less than 2 million now are unemployed, but the great bulk of our labor force is still at work on civilian requirements. We may roughly assume that around 8 million civilian workers are required to devote their entire efforts to our own war production and related activities. Another 1 million may possibly be required to help arm our allies. These 9 million must be taken off other work and consumers must do without some things they have been getting since World War II.

If 9 million isn't enough, an increase in the length of the work week from the present average of 41 hours to 48 hours for workers on war requirements could produce the equivalent of adding an additional million men. During World War II, at least 5 million women were drawn into war work. But I hope that only a par of these will be needed in a partial war economy.

Nevertheless, let us not get complacent about the manpower situation. It is much tighter than in 1940. We have far fewer unemployed now. Fewer young people are reaching military and working age. And the huge crop of war and postwar babies will keep a larger percentage of housewives out of the labor force.

This is a situation ready made for wage boosts not related to increased productivity. We have already had many in our most important industries and they are forcing others. Yet such wage boosts are the last thing we can afford in a partial war economy. The penalties are two-fold—a rapid rise in costs of the defense program, and an inflationary wage-price spiral that could wreck the remaining purchasing power of our dollar. Like all the rest of us, labor owes the country a maximum of restraint.

Our "Achilles' Heel"

Seventh as to Money: Here is our weakest point. That's the reason Stalin has devised his Machiavellian plan to toss a series of Korean wars our way, hoping that through deficit financing we will debauch our currency and wreck our matchless economy. Then our military destruction would be easy, for Stalin has ample manpower but a poor economic machine. We have limited manpower and the greatest economic machine in the world.

Why is money our "Achilles' Heel," our weakest spot?

In Russia, money, wages and prices have no more real meaning than they have to the inmates of Sing Sing prison. But, in a capitalistic system, money, wages and prices are the very essence of the market place where people freely exchange goods and services, where they decide between deferring purchases and accumulating capital or spending money and enjoying goods, and where they decide between risking their savings or lending them to the government.

We have gone through two World Wars in a little more than 30 years. Our national debt went from a little over $1 billion to about $280 billion at its peak.

World War I for us lasted 19 months. Deficit financing, even with some effort to control prices, brought an inflationary boom and bust.

World War II lasted almost four years and the torrent of deficit financing released an inflation that brought the value of the dollar down to less than 59 cents.

But this partial Puppet-War we are faced with may last 10 years or 20. And during every year that it lasts, we must provide not only what is necessary to win the partial war, but we must be preparing to win World War III if, as and when it comes.

In my *opinion* it would be stupidly playing right into Stalin's hands to try to finance this partial war by failing to raise the money to pay as we go. President Truman and Secretary of the Treasury Snyder have repeatedly said we must avoid inflation and deficits. And yet, an Associated Press dispatch of Nov. 16 from Atlanta reported that one of the President's closest advisors, Mr. W. Averell Harriman, said "The price of peace was vigorous rearmament by the entire free world, *with more deficit government spending in the United States* and more sacrifices by young and old." I agree with all he says *except* that we should plan to have *more deficit government spending by the United States.*

Is it necessary? Let's do some figuring. No one in Washington has as yet more than half hinted what the cost of this partial war is going to be.

If my estimate of 4,000,000 men in the armed forces is right then the military cost, including aid to our allies may well be $50 billion a year as an average for the next two fiscal years and maybe more.

That means a Federal budget of $75 billion unless we cut out $5 billion of unnecessary expenditures which would bring it down to $70 billion.

Well, $70 billion is a whopping big bill. But do we have to play into Stalin's hand by accepting before we start, as Mr. Harriman does, the premise of trying to pay for this partial war with deficit financing? I don't think so.

Let's look at the record.

In World War II we used almost half of our gross national product for war and other government purposes. In this partial war with a gross national product of $300 billion and a Federal budget of $70 billion of which $50 billion will be used for war, we will be using less than one quarter.

Should Raise Taxes to Pay as We Go

In World War II we raised about one-half of the cost of the war in taxes. In this partial war, with

Continued on page 74

*An address by Mr. Brown at the 55th Annual Congress of American Industry, sponsored by the National Association of Manufacturers, New York City, Dec. 7, 1950.

Economic and Financial Conditions Affecting Canada

By H. A. STEVENSON*
President, Barclays Bank (Canada)

Prominent Canadian banker reviews worldwide and domestic economic and financial developments. Says rearmament demands have already stimulated Canada's activities and business progress in coming year may be anticipated. Cites healthier international situation and lauds action of Canadian Government in unpegging rate of Canadian dollar. Contends pegged rate encouraged rather than deterred currency speculation and concludes internal financial condition of Canada is exceptionally strong, with U. S. dollar reserves at record high.

Unfortunately, and as we are well aware, the business world for some number of months past has been conducting its affairs in an atmosphere of anxiety and apprehension as to whether the complications of international politics would eventually lead to the outbreak of a major military conflict between the exponents of Democracy and those of Communism.

H. A. Stevenson

The democratic country delegates to the United Nations, after some years of seemingly lethargic response to the step by step communistic infiltration and domination of various countries, especially in the Far East, were finally startled into unified and direct action by the military invasion of South Korea.

The military task and financial burden of relieving that country fell largely on the shoulders of the United States, who tackled it with admirable energy and success. We must hope that this practical demonstration of democratic determination to defend, if need be, at great sacrifice, the political freedom of other countries will arrest further communistic aggression and enhance the prospects of solving the world's ideological problems by pacific and conciliatory methods. It would be rash, however, to assume that this will be the case. Consequently, it has unfortunately become imperative for the democracies, including Canada, to take precautionary steps by building up greater military supplies and power.

It is against this background of international political uncertainty, and recognition of the fact that the demands of rearmament have already stimulated Canada's activities, that we should look at the year's business progress.

At the time of the outbreak of the Korean conflict, many of the countries which had been debilitated economically by World War II had, thanks largely to Marshall Aid and determination, made excellent progress in their internal rehabilitation.

In most parts of Europe, the old conflict's ravages had been largely repaired, production greatly restored and a much better degree of financial stability attained, with standards of living showing decided improvement. Many postwar economic restrictions and controls had been gradually eliminated or modified in a constructive way, although in the realm of official business supervision much room remained for further alleviation, greater freedom for enterprise had been generally brought about and international trade and commerce has been expanding fast and profitably.

The satisfaction which this healthy international progress in the right direction provides is much amplified when we look at our own country's accompanying economic performance, which has been outstandingly good. Canada has been a hive of intense activity, with prosperity and plenty abounding.

High Rate of Employment in Canada

The latest survey undertaken by the Dominion Bureau of Statistics in August showed that more Canadians were engaged in gainful occupations than at any previous time in our history. Out of a labor force of 5,324,000, there were but 103,000 unemployed, that is, 1.93% of the total labor force or, in other words, only 0.74% of the total Canadian population. Compared with the position at the end of March this year, when 428,000 persons were reported unemployed, and after allowing for normal fluctuations due to climatic conditions, this recovery is very gratifying. While it is anticipated that, for seasonal reasons, there may be a bit of a swing in the reverse direction during the next few months, it is also considered highly probable that the greater industrial activity now pertaining will keep any possible recession within moderate proportions.

Canada's labor income for the whole of 1948 was $7,130 million, and for 1949 $7,630 million. For the first six months of this year it was estimated to be as high as $3,862 million, with the probability that for the full year it will exceed $8,000 million. Labor has never been more fully employed and it certainly has never been better paid.

In the agricultural field, the wheat crop has been somewhat of a disappointment, although not as to quantity. It has been estimated at 470 million bushels, that is, roughly, 100 million bushels more than last year's outturn and 75 million bushels above the last 10-year average, but frost and rain within a week or two of harvesting time damaged its quality severely. Of the 1949 crop, 84.8% graded No. 3 or better, but it is expected that only about one-third of this year's harvest will make that grade, so in all probability this year's bigger but deteriorated crop will produce less revenue than did last year's smaller one.

Income from crops other than wheat will be higher than last year but marketings of livestock are expected to be slightly lower, and during the last half of the year, at prices lower than in 1949.

Total cash income of Canadian farmers from the sale of farm products during the first six months of this year was estimated at $871 million, which is about 18½% below the $1,069 million for the corresponding period in the previous year. This substantial decline is mainly due to a reduction from $213 million to $6.3 million in the wheat participation and equalization payments to Prairie farmers.

Our mining industry has continued to travel a comfortable and prosperous path and, although no important new mines or ore deposits have been opened recently, production of 14 out of the 16 most important minerals has proceeded at a rate slightly superior to that of last year. For the first seven months of 1950 copper, lead and zinc output was, in the order named, 152,000 tons, 89,000 tons and 178,000 tons. For the similar period in 1949 the respective figures were 150,000 tons, 85,000 tons and 162,000 tons, but during the present year prices of these three metals have risen substantially, copper being currently quoted at 39%, zinc at 75% and lead at 8% above the prices in force a year ago.

The output of nickel fell during the same period of the year to 71,000 tons from 77,000 a year earlier, but a coincident price increase should ensure satisfactory returns for the producers.

The asbestos industry, which suffered extremely from the disastrous labor strike last year, is now working apace and doing well. Output is high and, here again, prices much above those of recent years are being obtained for the product.

Good progress is being made toward the development of the fabulous deposits of iron ore in northeastern Quebec and in the Labrador section of Newfoundland, from where it now appears that ore will probably be forthcoming for both domestic use and export before the end of 1952.

Our country's mineral wealth has been but barely tapped and the growing dependence of the United States on Canada as a source of vital metals, which we have in such abundance but the domestic supplies of which in the United States are shrinking under ever-increasing demand, emphasizes the potentialities of our mining industry and its value as an asset to the country's foreign trade and to the community of western nations.

The year has witnessed great strides toward the commercialization of Alberta's oil. The first section of pipeline, which, before the end of the year, will be carrying Canadian oil to the westernmost tip of Lake Superior, has been opened and there is already a flow from Edmonton to Regina in sufficient quantity to meet the needs of the Regina refineries that supply the Province of Saskatchewan with oil and gasoline. It is expected that, after the turn of the year, crude oil will flow to Superior, Wisconsin, for storage and subsequent delivery to the south-west Ontario refineries for processing and distribution throughout most of Ontario. The Manitoba refineries will receive their supplies through the same pipeline.

Alberta produces about 95% of Canada's oil and put out 14.3 million barrels for the first seven months of the year. The January to July daily flow of 70,000 barrels has since been stepped up to approximately 90,000 barrels daily and this can be further increased as and when pipeline accommodation expands.

Compared with 900 wells in production at the end of last year there are now 1,500, and the number is being added to constantly. Actually plotted reserves now total 800 million barrels, which should be enough to meet the country's normal requirements for very many years to come.

By the substitution of this home produced oil for oil hitherto imported from abroad, our trading account with the United States is expected eventually to improve by a figure in the neighborhood of $150 million annually. Over

Continued on page 65

*An address by Mr. Stevenson at the Annual Meeting of the Shareholders of Barclays Bank (Canada), Montreal, Canada, Nov. 21, 1950.

Business Prospects and Pitfalls of 1951

By LEWIS L. SCHELLBACH*
Vice-President, Standard and Poor's

Asserting coming expenditures by government, consumers, and business, will determine pattern for entire economy, Mr. Shellbach foresees: (1) production dip in first quarter with later recovery as armament production hits its stride; (2) price stability during first half, with strength in metals offset by sporadic weakness in foods, building materials and textiles; and (3) 1951 net corporate of $17-$19 billion against $22 billion for 1950. Although there may be urge to lighten inventories after this year-end, advocates holding on where possible through temporary price weakness.

Ever since I can remember, it has been customary to begin a talk of this kind with the statement, "Never before has economic visibility been so low as it is today." That has doubtless been true ever since 1932. Before that, all we had to do was look at commercial loans, the balance of trade, the gold flow, carloadings and a few other barometers and draw our own conclusions. There were special fetishes from time to time: Some economists swore by pig iron production, others by the demand for babbitt metal.

Lewis L. Schellbach

Then came the New Deal, and our task was complicated by the necessity of guessing what Washington was going to do next. That pattern finally became fairly well standardized and the guessing game could be played with a fair degree of success. But now, we are called upon to read the oriental minds of those who occupy the Kremlin.

So the statement is as true as when it was coined by the advisers of one of the early Caesars: "Never before has the economic outlook been so confused as it is today."

That does not exempt us from the duty of trying to penetrate the clouds; of setting up tentative patterns, based upon certain assumptions, the patterns to be altered as actual developments alter the basic assumptions.

Today's Major Factors

The major factors to be considered today are the same as

Continued on page 77

*A talk by Mr. Schellbach before the Fall Forum Meeting of the Business Economic Division, New York Metropolitan Chapter, American Statistical Association, New York City, Nov. 30, 1950.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Oil Companies — Financial survey of 30 companies in 1950—Petroleum Department, Chase National Bank of the City of New York, Pine Street corner of Nassau, New York 15, N. Y.

Over-the-Counter Index—Booklet showing an up-to-date comparison between the thirty listed industrial stocks used in the Dow-Jones Averages and the thirty-five over-the-counter industrial stocks used in the National Quotation Bureau Averages, both as to yield and market performance over an eleven-year period—National Quotation Bureau, Inc., 46 Front Street, New York 4, N. Y.

Puts & Calls—Explanatory pamphlet—Thomas, Haab & Botts, 50 Broadway, New York 4, N. Y.

6% or Better—List of selected oil equities yielding 6% or better—Dreyfus & Co., 50 Broadway, New York 4, N. Y.

Tax Exempt Bonds as Investments in the Present Inflation—Reprint of address by Phillips Barbour—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

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Boston & Maine Railroad—Special memorandum — Greene and Co., 37 Wall Street, New York 5.

Canada Dry Ginger Ale—Analysis—Hayden, Stone & Co., 25 Broad Street, New York 4, N. Y.

Chicago, Rock Island & Pacific Railroad Co.—Analysis—Gerstley, Sunstein & Co., 121 South Broad Street, Philadelphia 7, Pa.

Great Northern Railway Company—Analysis—Smith, Barney & Co., 14 Wall Street, New York 5.

International Cellucotton Products Company—Study in current issue of "Business and Financial Digest"—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

In the same issue is a brief analysis of **Modine Manufacturing Company.** Also available is a tabulation of securities widely held in Wisconsin.

International Telephone and Telegraph Corporation — Analysis — Bruns, Nordeman & Co., 60 Beaver Street, New York 4, N. Y.

Kendall Company—Bulletin for dealers only—Remer, Mitchell & Reitzel, Inc., 208 South La Salle Street, Chicago 4, Ill.

Long Island Lighting Company—Analysis—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Peoria and Eastern Railway consolidated 4s — Circular — Freeman & Company 61 Broadway, New York 6, N. Y.

Pickering Lumber Corporation — Leaflet — Barclay Investment Co., 39 South La Salle Street, Chicago 3, Ill.

Reading Tube Corporation — Analysis—Aetna Securities Corp., 111 Broadway, New York 6, N. Y.

Riverside Cement Company—Card memorandum — Lerner & Co., 10 Post Office Square, Boston 9, Mass.

Seaboard Air Line Railroad — Circular—Cohu & Co., 1 Wall St., New York 5, N. Y.

U. S. Thermo Control—Analysis — Raymond & Co., 148 State Street, Boston 9, Mass.

Also available is an analysis of **Simplex Paper.**

TO SECURITY HOLDERS OF MISSOURI PACIFIC RAILROAD SYSTEM

Don't Skin Your Property

By Your Own Vote!

The same group of Insurance Company executives that strove to put over the so-called "Stedman Plan" of reorganization of the Missouri Pacific back in 1941 again advises you to "accept" a bad deal. You should ignore this prejudiced and interested advice, just as you ignored it in 1941.

In our advertisements and letters to you at that time we warned you of a vital defect, which they sought to gloss over, that the "Stedman Plan" would strip the railroad of its most priceless asset—its tax exemptions and tax base as then constituted. We said:

"Missouri Pacific (exclusive of subsidiaries) has present basic interest requirements of $20,726,000 which are now totally exempt from the normal Federal income tax and surtax of approximately 31%, whereas under Mr. Stedman's plan only $10,029,174 of fixed and contingent interest exemption is provided. Thus, by unwisely seeking to make its new securities stocks instead of bonds, the 'Stedman' plan would automatically and unnecessarily transfer from the treasury of the Missouri Pacific to the Federal tax collectors approximately 31% of the $10,696,000 difference in bond interest exemption, or $3,300,000. The above calculation is made as though no excess profits tax were in effect.

"So long as the excess profits tax remains in effect the loss to Missouri Pacific because of the 'Stedman' plan becomes even greater. In reducing the company's invested capital base by substituting stocks for bonds, Mr. Stedman would obligate the company to huge excess profits taxes which are not incurred under the present capitalization. . . . By blindly scuttling approximately $300,000,000 of the capital base of the present company under the plan he sponsors, Mr. Stedman would gratuitously incur an excess profits tax liability of approximately $7,000,000, based on 1941 earning."

Your decision to reject the Stedman 1941 plan was rewarded by savings in taxes which have since aggregated $65,000,000. It was with the help of such savings that the following debt was retired:

Underlying bonds	$14,000,000
Iron Mountain bonds	34,500,000
RFC and RCC	28,000,000
Bank loans	5,800,000
N.O.T. & M. Incomes	2,300,000
Other miscellaneous	6,400,000
TOTAL	$91,000,000

Just as the normal Federal income tax of 31% back in 1941 now looks small, some day the present 45% tax may seem so. As the war advances, and to pay its cost in the peace that follows, the railroad may face taxation of earnings after bond interest at the 85% level of the last war for many years. Therefore when you are asked to accept stocks, dividends on which are not deductible for tax purposes by the railroad, in exchange for all or part of your bonds, the interest on which is wholly deductible for tax purposes by the railroad, you are blandly being asked to commit financial suicide, by your own vote.

One Quick Way to Reorganization—Only

The only quick way to get the Missouri Pacific out of the Courts is to "reject" the present plan, and for all parties at interest to get together immediately to sponsor the simple readjustments necessary to proceed under the Mahaffie Act. The Mahaffie Act was passed by Congress in 1948 for reasons best described in its Committee report, to wit:

"as a result of increasing dissatisfaction over a period of years by Members of Congress and by large numbers of citizens with the operation of railroad reorganization procedures under section 77 of the Bankruptcy Act and sharp criticism of the forfeitures of investments under that section."

A Mahaffie Act Plan Will Preserve Your Values

The Mahaffie Act was passed by Congress in 1948 with the express idea of correcting injustices under Section 77. Just as the Jersey Central in a period of a few months was brought out of Section 77 under a Mahaffie Act Plan, so can the Missouri Pacific be brought out. Why is it that the Insurance Companies regard what is good for the Jersey Central as bad for the Missouri Pacific?

Mark your ballot R-E-J-E-C-T

J C Davis

On Behalf of the Missouri Pacific Railroad

Robert R. Young

On Behalf of Alleghany Corporation

WARNING: Insurance companies, bankers and brokers having special interests in the situation, and especially brokers with profits in when issued securities, will advise you to "accept" the present plan. The chief argument of these "advisors" will be that the railroad has been in reorganization long enough. Heaven knows we know it! The truth is, the present plan is not yet so far along as the 1941 plan was nine years ago; for, besides ourselves, there are ten other determined appellants, whose cases, like ours, are in many respects stronger than they were then.

An Economic Riddle Wrapped in An Enigma

By EDWIN G. NOURSE*
Former Chairman, Council of Economic Advisers

Dr. Nourse, in pointing out national security rests upon integrity of both the dollar and government bonds as well as on tanks, atom bombs and radar nets, warns a crack-up of financial structure may result unless fear of inflation is checked. Advocates firm but reasonable controls and priorities over inventories, but cautions against regulation "of the complicated, largely psychological relationship of our price system." Upholds credit controls and urges cut in non-military spending.

This month brings us to the end of 1950, close to the time when we begin to take a retrospective view of the year that has passed and a prospective view of the year which is soon to open. The past year has, of course, been one of great prosperity—on the surface at least. The new year, as always, is viewed with uncertainty. By and large, I believe most people are optimistic, not so much in confidence that economic fundamentals have been dealt with fundamentally, but in a sort of gambler's faith that we can parlay our past gains along to at least one more handsome winning.

Edwin G. Nourse

I am addressing you tonight under the title "An Economic Riddle Wrapped in an Enigma"—a phrase brazenly borrowed from that master phrase-maker, Winston Churchill. My application of the phrase is this: Our economy is confronted by the riddle of how we are going to conduct ourselves within the deep enigma of what kind of military dangers and drains are going to be thrust upon us by the mad rush on the relentless but shifting pressures of Soviet imperialism.

Frankly, I do not think we have been giving a good account of ourselves during this past year. I said in this city last May that I thought the country was indulging in the pleasant relaxation of an Indian summer day-dream instead of facing the stern realities of inflationary dangers. The price indices subsequently have shown that this inflationary pressure broke out actively in May and June before Korea was thought of. That episode simply revealed and aggravated the weaknesses that had been accumulating in our fiscal and monetary structure ever since World War II. The sad thing is that Korea did not awaken us to those defects and set us about correcting them. Instead, it started a general scramble of individuals and groups to take care of themselves and "let the devil take the hindmost."

But such behavior defeats itself. It ends in demoralization of the whole economy and then we are caught in a common disaster. The only real security is collective security. Unless hoarders of goods and of manpower agree to share general scarcities, unless profiteers abstain from making special gains out of war, unless farmers cease to press their claims as a specially important class, unless labor agrees not to demand more, more when there is less to divide, we shall never come to the economic stabilization that prepares us for war or that would enable us to remain adequately prepared over an indefinite span of years ahead.

Dangers of Permanent and Widespread Controls

The decisions we make in Congress and the actions we take in the private sector during the next few months will have enormous significance for the future of our country. I refer not merely to the economic prosperity of coming years, but also to the degree of economic freedom that we and our children will have. Controls imposed in a relatively brief full-scale war have all the drive of patriotism and immediate danger behind them. But if put on for an indefinitely continuing period of uncertain threat they are almost impossible of continued enforcement, but gradually lead to a widespread disrespect for law and practice of evasion. If, on the other hand, controls are accepted and built into the pattern of American business for 10 years or 15 or 20 years, the prospect of returning to a free system becomes almost hopeless.

If we are to escape the dangers of minute and largely arbitrary regulations of the local and personal operations of business we must push for and cooperate with those overall determiners of the general business situation—the "economy" program, taxation, credit controls, and materials flow and uses.

In concrete terms, I believe that controls over inventories and priorities can, if applied firmly but reasonably be a very real help in preventing bottlenecks and easing conversion to the lines of production most needed for the kind of preparedness program we actually undertake. Probably the test here will be whether the control authority can be vigorous but not arbitrary in establishing a few relatively important limitation-of-use orders which discriminate sensibly between essential and non-essential lines of production.

While, of course, our industrial system is interrelated in very complex ways, it is in my judgment possible to apply specific controls to the flow of materials at strategic spots and to initiate, strengthen, relax, or terminate and abandon them without getting mired down in overminute regulation or becoming enmeshed in regulation of the whole physical process.

I draw a sharp contrast here between regulation of physical movement and the attempt to regulate the inexpressibly complicated and largely psychological relationships of our price system. This, I think, is a quicksand which we would be wise to avoid unless we are forced into an all-out shooting war. Control in this area is all the more difficult because price relations involve wages, and wage relationships have both contract rigidities and political involvements which make any workmanlike or scientific outcome hopeless from the start.

My interpretation of our past experiments in this field of price control leads me to believe that a good deal of desirable influence on prices can be accomplished by direct or physical control of materials on the one side and central bank control of credit on the other side. But actual involvement in

Continued on page 87

*Address by Edwin G. Nourse, before correspondence meeting of the Philadelphia National Bank, Philadelphia, Pa., Dec. 6, 1950.

Missouri Pacific RR. Bondholders Urged To Veto ICC Plan

A protective committee acting for certain holders of the 5¼% secured serial bonds of the Missouri Pacific RR. on Dec. 11 urged owners of these securities to vote against the reorganization plan submitted by the Interstate Commerce Commission. More than 26% of these bonds are understood to be represented by the committee, of which De Lancey C. Smith is Chairman, and by John Speed Elliott, a holder, who also is asking other owners to vote against the plan.

In their opinion the reorganization plan approved by the ICC and the U. S. District Court fails to give due recognition to the rights of holders of the 5¼% bonds. Claims of these bondholders, it was contended, should be paid either in cash or in new fixed interest serial obligations, or in capital stock of the New Orleans, Texas & Mexico Ry. pledged to secure the bonds by distribution pro rata to the secured serial bondholders or by sale at public auction for the benefit of their claims.

Under the reorganization plan, it is proposed to exchange for each $1,000 5¼% secured serial bond plus interest, $1,500 in MOP 4½% general mortgage income bonds, 2.92 shares of new $5 preferred stock and 2½ shares of new class A common stock.

Boston Invest. Club Elects New Officers

BOSTON, Mass.—At the annual election of the Boston Investment Club, held at the University Club on Dec. 8, the following officers were elected:

President: Edwin J. Pingree, F. S. Moseley & Co., Vice-President; Thomas Johnson, Eaton & Howard, Inc., Treasurer; Albert P. Everts, Jr., Paine, Webber, Jackson & Curtis, Secretary; C. Frederick Edgarton, Hornblower & Weeks, Publicity Chairman; Edmund J. McGreenery, Draper, Sears & Co.

Our "Fluid" Defense Against Inflation

By OLIVER S. POWELL*
Member, Board of Governors of Federal Reserve System

Discussing current pattern of "fluid" defense against inflation, indicated by Federal Reserve Regulations W and X, as well as voluntary credit and restraints, and higher discount rates, Governor Powell mentions, as further possible move, increase in bank reserve requirements. Says increase to maximum level now permitted would cause banks to sell upwards of $2 billion of government securities and thus lower their liquidity. Urges screening of commercial and other loans.

The title for this address uses a common military term. At times it is not expedient to form a solid defense in depth all along a battlefront, and it is necessary for troops to be sent in to the lines wherever the danger seems greatest. There is a continual reappraisal of the aggressor's moves and a shifting of defense to meet new situations. The defense against inflation is somewhat similar. There is no such thing as an overall defense move to prevent higher prices short of complete freezing in prices, wages and profits. In a peacetime economy, or one of a growing national defense short of war, we have rejected these complete controls and we are using a battery of voluntary and regulated restraints.

Oliver S. Powell

It is my purpose this afternoon to give you a progress report on the use of these restraints; but first let me give you a brief account of the inflation problem and its sources. Early in 1950 the recovery of business from the minor recession of 1949 had brought the level of production, consumption and employment to a high plateau. Production was almost at capacity, a point beyond which it is difficult to expand except by the slow processes of population growth, more factories and improved industrial techniques. Then came the Korean invasion and it set off a rush of panicky buying. Remembering the shortages that developed during World War II, we rushed to the stores and bought abnormal quantities of merchandise—everything from sheets and coffee to television and autos. There was also an unprecedented increase in residential building, which will probably bring the 1950 total to a new high record of one and one-half million units. This buying rush caused retailers and manufacturers to step up their purchases and production rates, and there was a sharp increase in employment. The inevitable result of all this was a sharp rise in prices, and another round of wage increases.

Sources of Increased Buying Power

It is important to analyze the sources of buying power which made possible this abnormal buying movement which was superimposed on a high level of peacetime trade. There were three principal sources of buying power:

First, current income. The sum total of wages, rents and income from invested capital which normally just about equals the production of goods and services.

Second, the use of savings by drawing down savings accounts, cashing savings bonds and spending funds which had remained idle in checking accounts awaiting a suitable time for use.

Third, borrowing against future income. Consumers' borrowings to buy automobiles, household appliances and houses; business firms borrowings to increase inventories or to pay higher prices for inventories or to extend credit to consumers.

The combination of these three sources of buying power, coupled with the greater activity of deposit accounts, when used to purchase a quantity of goods and services that could not expand with equal rapidity has caused a price rise of three to four per cent in consumers' goods and a much larger price increase in raw materials and wholesale prices.

This situation would probably have called for restraining action of some sort even in peace time. It became much more essential to invoke restraints under today's conditions of growing plans for national defense. The gap between available goods for civilian consumption and the supply of purchasing power promises to be even larger as the months go on. Within a year we are likely to see a million fewer employees engaged in making civilian goods. The amount of raw materials available for civilian goods production will probably be less next year than today because of defense requirements. Already allocations and restrictions in many strategic materials have been announced. Yet with full employment, counting as employees those producing civilian goods, the workers in defense industries, and people in military service, the national income might be as much as twenty-five billion dollars above current levels. This guess is on the assumption that no further price increases occur. The probable gap between income and available civilian goods would cause tremendous pressure for higher prices, even with no expansion in bank credit and various forms of consumer borrowing against future incomes. It should be borne in mind that higher prices not only add to our cost of living and subtract purchasing power from our savings, but they also add to the cost of defense and to the problem of financing the defense effort.

The Defense

This is the problem with which we are faced. Now, what of the "fluid" defense? Again, in military terms, let us list the attacking forces and consider the defenses that have already been set up or are in prospect.

(1) The rapid spending of income and savings. Here the defense must primarily be in the form of taxes and still more taxes. Through our elected representatives, the Federal Government has already increased income taxes to channel a portion of our national income into the purchase of defense materials and services. At the same time, they are eliminating to that extent our ability to use the same funds for the purchase of civilian goods.

A secondary line of defense is for the American people voluntarily to restrict our purchases of

Continued on page 85

*An address by Mr. Powell before the Pacific Northwest Banking Conference, Seattle, Wash., Dec. 8, 1950.

Foresees New U. S. Securities on Market

Sylvia F. Porter, editor of "Reporting on Governments, Inc.," tells savings bankers "pay-as-you-go is complete casualty of new undeclared war," and that a large scale sale of long-term securities to nonbank investors may be expected in 1951.

Speaking before the mid-winter meeting of the National Association of Mutual Savings Banks in New York City on Dec. 11, Sylvia F. Porter declared that the stunningly bad news from Asia makes it a virtual certainty that the remobilization program will be vastly expanded and speeded up. "Pay-as-you-go is a complete casualty of the new undeclared war," she said. "There really wasn't more than a whisper of a chance for it before the Red China assault; there is none now. In addition, the chances that controls will be hastened and tightened enhance the outlook for a sharp decrease next year in the supply of investments available to savings institutions outside the U. S. Government bond market. The two forces point to the necessity, the feasibility and the wisdom of a large-scale sale of longer-term securities to nonbank investors in calendar 1951. And the questions being actively debated in top-level official and private financial circles today concern the exact timing of the move in 1951 and the terms of the offering rather than the program itself."

Sylvia F. Porter

Miss Porter emphasized that the 'Treasury' cash position is sufficiently comfortable now to permit it to postpone major deficit financing until summer. "Not until then will the multi-billion dollar gap between income and outgo appear, even though rearmament commitments will be much greater than anticipated just a few weeks ago. At that time also, however, the lag between remobilization orders and payment will be disappearing and the speeded-up arms program will be having a full influence on the supplies of civilian goods and of non-U. S. investments. At this moment, mid-1951 appears the most likely date for the first important deficit financing of this new crucial phase."

The prospect is of the most practical importance to all savings banks, Miss Porter stressed, on several counts. Such financing obviously will directly affect the composition of bank portfolios and of bank portfolio policy. It also obviously will influence price movements in the government market and in allied bond markets. And since some of the proposals being made on terms involve the basic structure of the government market and the American economic system, she urged banks to inform themselves on the discussions now in progress and on the points submitted so that they may formulate opinions and express them through their representatives.

"There is significant agreement among Washington fiscal authorities that borrowing through nonbank institutions is to be most preferred under present and prospective conditions," she continued. "There is also significant agreement that the borrowing should take the form of long-terms geared to a 2½% basic rate. Despite constantly recurring fears and questions about maintenance of the fundamental long-term 2½% anchor in view of intensifying inflationary pressures, all our queries among policy-making officials and analyses of the factors involved affirm the stability of this rate for the future that we can foresee now. And there is significant agreement too that future nonbank offerings should not be along the lines of the presently outstanding 'taps'—bonds ineligible at the issue dates that become eligible at later specific dates. The inclination is toward obligations that are permanently ineligible, marketable or non-marketable."

Miss Porter posed the key questions now being debated: "Should the bond be a marketable ineligible—a new long-term 2½ offered at par and subject to price fluctuations, up and down? Or should it be a non-marketable ineligible—subject to no market risks whatsoever? Should the bonds be issued in spirited drives, similar to the campaigns of 1943-46? Or should they be continuously on tap, always available to institutional buyers as the 'E' bonds always are available to individual buyers?"

To reach a sound judgment on these extremely practical questions, Miss Porter suggested that savings bankers carefully weigh the arguments pro and con.

Wilbert H. Campbell

Wilbert H. Campbell, investment dealer of Newark, N. J., died suddenly at the age of 64.

FIC Banks Place Debs.

A successful offering of an issue of debentures of Federal Intermediate Credit Banks was made Nov. 15 by M. G. Newcomb, New York fiscal agent for the banks. The financing consisted of $65,480,000 of 1.75% consolidated debentures dated Dec. 1, 1950 and due Sept. 4, 1951. The issue was placed at par.

The proceeds, together with $28,420,000 cash in Treasury, were used to retire $93,900,000 of debentures maturing Dec. 1, 1950.

As of the close of business Dec. 1, 1950, the total amount of debentures outstanding amounted to $507,470,000.

Robert Hudson With Pacific Coast Secs.

(Special to The Financial Chronicle)

SAN FRANCISCO, Calif—Robert W. Hudson become associated with Pacific Coast Securities Company, 519 California Street. Mr. Hudson was formerly manager of the trading department for Gross, Rogers & Co. in Los Angeles. Prior thereto he was with Sutro & Co. and Buckley Brothers.

With Waddell & Reed

(Special to The Financial Chronicle)

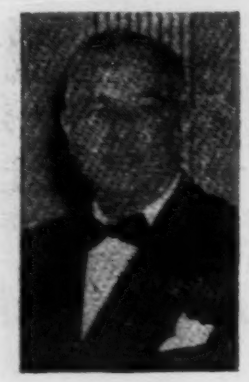
DENVER, Colo.—Leo P. Curtis has joined the staff of Waddell & Reed, Inc., U. S. National Bank Building.

What New York Security Dealers Have Accomplished

By DAVID MORRIS*
David Morris & Co., New York City
President, New York Security Dealers Association

At celebration banquet of 25th Anniversary of New York Security Dealers Association, Mr. Morris, its President, recalls efforts and achievements of organization to raise standards of over-the-counter business. Says Association supports Frear Bill in principle. Commends financial papers for publishing over-the-counter quotations, and pledges continued cooperation with other segments of securities industry.

This celebration represents a milestone in the affairs of the New York Security Dealers Association. We feel that our efforts have raised the standards of the over-the-counter business for the benefit of the investing public, and for the benefit of all broker-dealers in the over-the-counter industry.


David Morris

Twenty-five years ago, a group of dealers in unlisted securities met to discuss the problems that beset the over-the-counter industry at that time. Out of the discussions was born the New York Security Dealers Association for the primary purpose of self-regulation of its members, to assemble and publish daily quotations on unlisted securities, and to promulgate and to enforce uniform practice among its members. From the outset the purposes of the association met with success.

The financial editors of the New York papers were more than generous in their cooperation in publishing our quotations, as were the Associated Press, and the United Press in sending our quotations throughout the nation over their wire services. It was not long before our Uniform Practice rulings on dividends, when issued contracts, and other trade questions were accepted and followed by the broker-dealers throughout the country generally. It always has been our policy to support all measures beneficial to the investor, and to oppose those measures that are, in our opinion, inimical to his interest. Our efforts have resulted not only in benefits to our members, but in benefits to all broker-dealers as well—we all know that that which is of benefit to our customers, must of necessity be of benefit to all broker-dealers.

We cooperated with the government in the formulation and administration of the securities legislation—our association assisted in the organization of and in the administration of the National Association of Securities Dealers, some of our officers and governors having served on the NASD Board of Governors, National Committees and on our District Committee.

Following the passage of the Maloney Act in 1937, and during the transition of the Investment Bankers Conference to the NASD, our association entered into an arrangement under which we turned over to the conference our quotation system, and at the same time we relinquished the function of ruling on Uniform Practice.

While there have been one or two occasions upon which we did not see eye-to-eye with the SEC and the NASD, no one could possibly question our sincerity of purpose and our lack of selfish interest.

The policies which the New York Security Dealers Association has followed over the years were formulated by those who have served as Governors of the

Continued on page 87

*An address by Mr. Morris at the 25th Silver Anniversary Banquet of the New York Security Dealers Association, New York City, Dec. 8, 1950.

Synthetic Liquid Fuel —A Coming Industry

By JAMES BOYD*
Director, U. S. Bureau of Mines

Dr. Boyd, revewing changing patterns in nation's fuel supply, foresees continued shift to liquid fuels. Points out domestic petroleum production may soon pass its peak, and production of synthetic gasoline, therefore, may become important, basic new industry.

The history of the use of energy in our country is a story of shifts from one fuel to another. As our economy has grown and changed through the years, the pattern of energy consumption also has been changing. During the first eight decades of the 19th century, wood was our chief source of fuel and energy; but even then mineral fuels were being rapidly substituted for it.


James Boyd

Beginning about the middle of the last century, anthracite and then bituminous coal began to take the market away from wood. Although wood had furnished over 90% of the energy during the first half of the century, it contributed only a little over 50% during the second half; by the end of the century it was supplying only about one-fourth of the total. This shift was due to the rise of the anthracite industry; a little later, bituminous coal came along to outrank anthracite in the amount of energy supplied. Petroleum and natural gas made a somewhat slower and later start, and did not really hit their stride until the 20th century. The use of mineral fuels has been accompanied by a rising per capita consumption—from 100 million B.t.u., when wood was preeminent, to about 230 million B.t.u. today.

The pattern of energy consumption in the United States has changed drastically during the first half of the 20th century. Coal provided by far the greatest portion of our total energy supply in 1920, but petroleum, natural gas, and water power have absorbed almost the entire increase in our total requirements since then. For the past 30 years or so, the growth in petroleum and natural-gas supplies has been faster than the rate of growth of total energy requirements of our economy. Hence, oil and gas have tended to provide for United States fuel requirements as they expanded, while coal production has been relatively stable, except in periods of major emergency. Thus the proportion of our total fuel needs provided by coal declined from over 78% in 1920 to less than 40% in 1949. The share of petroleum increased in the same period from 15% to almost 37, and that of natural gas from 4% to over 19.

Since World War II, the trend toward use of oil and gas fuels has been accelerated by the construction of many long-distance pipelines to bring natural gas to major consuming areas and by the utilization of depleted gas and oil fields in the Eastern States as storage reservoirs for gas transported in summer months to augment supplies during peak demand periods in winter. Liquefied petroleum gases, used for heating and other household purposes in rural or remote areas, are today a major petroleum product. Rapid expansion in the use of Diesel engines for rail and highway transport, for construction work, and for farm equipment has increased the demand for the light fuel oils. There have been record installations of space-heating equipment in the postwar years, and increased quantities of heavy fuel oils have been used in generating electricity. By far the largest amount of petroleum continues to be consumed in our 44 million motor vehicles.

The elements of petroleum supply have also undergone significant changes, particularly since the early years of World War II. The production of crude petroleum in the United States has increased by over one-third since the beginning of World War II, but in this period the production of liquids extracted from natural gas has almost doubled, and imports of crude petroleum and petroleum products have about tripled in volume. The relative importance of imports is therefore much greater now than at any time in the recent past.

Venezuela is our leading source of foreign petroleum, but in recent years development of vast and highly prolific production in several countries of the Middle East has brought supplies from that remote region. From a strategic point of view, the discovery and development of major reserves of petroleum in Western Canada since 1947 have great importance. These new sources of supply have already made the Dominion much less dependent upon oil produced in the United States and may in time bring about Canadian self-sufficiency in oil. A major pipeline to carry this Canadian oil to a shipping point near Duluth on Lake Superior is new nearly completed. In Mexico, recent gains in exploratory activity by the government and by sources of United States private capital suggest that the strategic supply position of North America may be further strengthened.

Total demand for oil and oil products is expected to exceed 2.4 billion barrels in 1950—a gain of about 9% over 1949. Domestic demand is estimated at approximatel 2⅓ billion barrels—an increase of more than 10%. The trend is even more apparent when we consider the per capita annual demand of the past 30 years—4.3 barrels in 1920, 7.6 in 1930, 10.1 in 1940, and an estimated 15.5 in 1950.

Shift in Fuel Patterns

The shift in fuel patterns has been so great as to cause concern in many quarters and to call for consideration by all who have a responsibility in this regard. Among others, the United States Senate, through the Committee on Interior and Insular Affairs, has expressed a serious interest in our energy resources. This Committee of the Senate is currently investigating the problem and may make recommendations with respect to the policies that it considers desirable and necessary.

Until recently policy considerations were based upon a study of each individual fuel industry, ignoring all the others. It has come to be realized, however, that we cannot study any one fuel industry apart from the others and get meaningful answers. The trend in technology is toward expanding

Continued on page 88

*An address by Dr. Boyd at the Annual Meeting of the American Society of Mechanical Engineers, New York City, Nov. 30, 1950.

Implications of Frear Bill

By HON. J. ALLEN FREAR, JR.*
U. S. Senator from Delaware

Sponsor of bill that would extend SEC regulations to many corporations whose securities are not registered on securities exchanges, says measure is required for protection of investors. Denies it will cripple over-the-counter market or that it is an attempt to extend bureaucratic regulation of business. Says securities traders should assume vastly expanded function in nation's economy.

One reason why I am happy to meet with you this evening is because I feel it extremely important for members of Congress to get the point of view of the people in the business or industry which is affected by pending legislation. There is always a great deal to be gained by first hand discussion and exchange of ideas on legislative matters.


Sen. J. A Frear, Jr.

The investment industry is and must be a vital part of our great tradition of free enterprise. Perhaps its greatest compliment lies in the fact that Soviet Russia has no such organization. And it is upon you dealers, who make up the bulk of the industry, that a major part of the responsibility for the preservation of our system falls. It it no accident that our traditions of freedom date, roughly, from the incidence of trading stocks and bonds. The Dutch East India Company, which was organized in 1602, has been called the first modern corporation. Under its flag Henry Hudson explored the river on which this great city stands.

Perhaps this proves that we are, as the Communist radio has claimed, a nation of stock-jobbers. If so, I am proud, for no group of men and women, from our earliest days, have had more to do with the development of our country. And today the stresses and strains upon our economy provide a new challenge to your resourcefulness. Our gross national product, according to the most recent estimates, is currently running at the rate of $284 billion per year, the highest in history. Of this, $198 billion represents personal consumption and $38 billion represents governmental expenditures, leaving some $48 billion which go into investments. Since the Korean war I notice a new impetus has been given investments in producers' durable equipment, business inventories, and new construction. All this means more demand for capital and I know each of you will play your part.

The big problem in meeting new demands for financing, as I see it, is to increase the interest of the public in direct investment, as distinguished from their indirect interest through their bank accounts and insurance policies. There are several ways of doing this. One is by the unsound method of the tip, the rumor, the hunch or the promise of an ever rising market. The other is by selling American enterprise to American people.

I believe the bill I introduced will be an important aid for those who choose to follow the latter method. It is designed to extend to investors in unregistered securities, many of the protections which, under our present laws, are available only to investors in registered issues. There is no logic in the present disparity of treatment. I have heard rumors that one of the largest of the unregistered companies, Aluminum Company of America, is contemplating registration under the Securities and Exchange Act. It seems obvious to me that a stockholder in Aluminum Company of America, a company with half a billion dollars of assets, should know his company's financial condition. He should be entitled to as much information about the matters to be voted upon at meetings he is unable to attend, as any stockholder of the Aluminum Company of Canada or Reynolds Metals Company, competitors with much less public investor interest. Yet, for one reason or another, Congress has not yet equalized this state of affairs.

As you may know, 'the bill would require all corporations with over $3 million in assets and over three hundred security holders to file periodic reports with the Securities and Exchange Commission disclosing their financial condition, and to make available sufficient information to permit their stockholders to act with informed judgment when called upon to execute their proxies for corporate meetings.

In addition, there is provision for the application of certain restrictions upon the trading activity of corporate management in securities, to prevent the abuse of inside information. However much these basic standards of corporate relationships may have been the subject of argument in 1934, they are today accepted by responsible management. Studies made by the Securities and Exxchange Commission indicated that even in the short time between 1946 and 1949 there was evident a trend toward more disclosure by the corporations examined. This bill would simply accelerate the trend.

The corporate management which does not supply essential information to its stockholders serves neither itself, the investment industry, nor its security holders. Insofar as there is any business advantage to be gained from non-disclosure, the small group of corporations oblivious of their fiduciary responsibilities benefit at the expense of the others. The proposed legislation would require all large corporations with a public investor interest to make adequate disclosures and thus eliminate this inequality.

Like most of you, I suppose, I am always reluctant to either propose or support any legislation which means an increase in governmental controls. Our nation has prospered under a system of free enterprise based upon a minimum of interference by government. It is for just this reason that I consider it highly necessary that legislation such as that which I have proposed be adopted. The amendment I have offered is not an attempt at business regulation. If it were, I would be the first to repudiate it. It does not even compel any major change in practices already followed by the great majority of corporations. It simply places a legal sanction upon fair and democratic treatment of minority security holders. To this I can see no serious objection.

Effect on Over-the-Counter Market

I recognize, of course, that many of you are concerned with the effect this legislation may have upon the over-the-counter securities market. I do not wish to enter into any controversy which may exist between that market and the exchange markets or to discuss the relative merits of each. However, I should like to assure you that I have these problems in mind and I welcome any assistance you may offer toward their solution.

An amendment to the bill suggested by the Securities and Exchange Commission directs that agency to make a study of trading on and off the exchanges and to report to us within two years upon the advisability, or feasibility of adopting rules governing admission to and removal from trading upon exchanges. I feel that amendment has merit. It was, I understand, the product of conferences between the over-the-counter industry and the Commission. Such a study should result in a definitive proposal for the protection of the over-the-counter market in securities not suited to exchange trading, and permit securities which should be traded on exchanges to find their way there. Let me assure you, for the record, that I would oppose any attempt to cripple the over-the-counter industry.

I firmly believe that the pending bill is one of those very unusual legislative proposals which contains advantages for every segment of our economy. The investor gets to know more about his company and is able to participate intelligently in its management. Management need not fear that competitors, by unfair conduct,

Continued on page 76

*From an address by Senator Frear at the Silver Anniversary Banquet of the New York Security Dealers Association, New York City, Dec. 8, 1950.

The Electric Power Outlook

By CHARLES E. WILSON*
President, General Electric Company
Former Chairman, War Production Board

On basis of estimates made by General Electric Company, Mr. Wilson sets defense spending in 1952 at $46 billion, and need for electric power development at more than double prewar period. Says, unless war power projects are heedlessly and poorly located and materials for equipment are made unavailable, power needs will probably be met.

My subject is electric power. It was said last May that in the United States today the political setting is conducive to rising economic activity, our policy being one of maximum employment at home plus economic rehabilitation and the improvement of security abroad. The role of our government, in the implementing of this policy, has continued to grow, as you know, and one of the effects has been to increase the pressure on private business. Business has complained and fought back against that pressure, but happily in the process it did not dare to relax and it fought back with its best weapons—intelligent and courageous expansion, continued scientific and economic research, improved communication with its employees and its public, and greater productive efficiency. Courage, in this case, was not mere words, but the investment of billions of dollars for new plants and machines.

Charles E. Wilson

With the summer came the shock of Korea and the first clear glimpse of the calculated and malignant forces of aggression. That shock set off—authentically but a little late as usual—our present national security program, and the effects and implications of it are mounting by the hour. This is a curious kind of hot-cold picture, as newsmen well know, with all of the planning by government and business that we associate with a full-scale war effort—but with no full-scale war. We have the tragedy of 30,000 casualties, and so far not even an official denunciation of the guilty parties, but it is not a full-scale war. But there is war enough to intensify certain important issues—the issues of *manpower*, *materials* and *productivity*. Perhaps we are being given an extraordinary opportunity, not granted last time, to count our money, our men, our resources and our facilities.

And so we come to electric power, which is at the same time a vital material or commodity and a dynamic instrument or tool by which it is possible to increase our productivity. It is a two-edged sword, or a double-bladed plowshare, as you please, and while this dual quality adds to its value, it also tends to trip up the statistician and the unfamiliar administrator. Not for one moment do I feel that members of the press also would fall into these traps, but so that we can all start even, let me just run through the bare fundamentals — the blocking and tackling of the subject, so to speak. The basic power unit is the watt; a kilowatt is a thousand watts; and a kilowatt-hour is the using-up of a thousand watts of electricity for an hour, which is what you do if you burn ten 100-watt incandescent lamps for an hour, at the cost of a few cents. Electric generating equipment is rated in kilowatts—a 25,000-kilowatt turbine, for example—while electric current is

Continued on page 92

*An address by Mr. Wilson before the National Press Club, Washington, D. C., December 5, 1950.

Corporation Tax Fictions

By ELISHA M. FRIEDMAN
Consulting Economist

Asserting tax on corporation is a tax on stockholders, Mr. Friedman contends increasing taxes on individual's dividends is preferable to increasing taxation on corporation paper profits

It is surprising that in discussions of taxation, so much attention is paid to slogans and so little to facts. The corporation is a legal person but essentially a fiction created by law. For example, when the Clayton Act tried to put teeth into the anti-trust law, the directors became liable for violation of the law by the corporation. The law recognized the directors as the real managers, and the corporation as a shell or screen.

Elisha M. Friedman

However, the proponents of high corporation income taxes live in a land of make-believe. What is a corporation? A large number of partners with limited liability. In its evolution, business passed through the stage of partnership with unlimited liability, then the joint venture with limited liability, and the joint stock association, and, finally, the corporation. The invention of the corporation is at the foundation of the rapid economic development of the United States and the increasing diffusion of wealth among all classes, including the smallest saver. Harold G. Moulton in his latest book, "Our Dynamic Economy," ranks the invention of the corporation along with the great mechanical inventions of the industrial era. The corporation attracts rivulets of capital into a pool which feeds the American economy.

One corporation, the American Telephone & Telegraph, has almost a million shareholders. General Motors has about 500,000. U. S. Steel has about 300,000. However, the overwhelming majority are small people who own $1,500 or less at average market values. In none of these corporations does any stockholder own even a fraction of 1% of the stock. With the increased estate taxes, the number of stockholders has been rising steadily and rapidly.

The tax on the corporation is a tax on the stockholder. Without stockholders, the corporation is nothing. The proposal to increase the corporation income tax to 50% or 55% is a fallacy. It merely increases the burden on little people. The British practice exposes this fallacy. There the corporation tax is really a tax on the stockholder deducted at the source. With the dividend goes a tax notice which a small stockholder presents to the Inland Revenue Board and he gets a refund. But the big British stockholder pays a super tax in addition. But in the United States, the millions of small stockholders who may be in the tax-exempt class or in the 20% bracket, pay via the corporation a rate of 45% deducted at the source, but receive no tax credit. They would pay practically nothing if they were small partners.

The fallacy of the corporation tax becomes obvious in the following example. If Mr. Rockefeller and a few associates form a small corporation earning $25,000, this small corporation pays a special low rate and the stockholders are treated like relatively poor men. But if Joe Doakes has five shares of General Motors or U. S. Steel, he is treated like a rich man in the 45% bracket because his share of the corporate income is taxed through the corporation at a 45% rate. If the 45% tax paid by the corporation was disbursed as dividends or regarded as a dividend tax deducted at the source, the little stockholder would pay less and the big stockholder would pay more in tax.

The concessions in taxation during World War II, such as the five-year depreciation allowance, enabled the corporations to put up modern plants and build up a good cash position out of depreciation reserves. Thus, they were enabled after the war to increase employment and to lower costs. The money not taken by the government in taxation remains as undistributed profit which is a trust fund for future employment. A study of the 50-year record of the United States Steel Corporation shows that dividends were less than the profits plowed back into the business. These were used to increase plant and thus create first, jobs for building trades and, subsequently, jobs for new steel workers.

In briefs before the House and Senate Committees, I tried to show that taxation according to ability to pay is taxation according to the ability to employ. One way of checking increasing employment is to tax away the corporation's ability to expand and modernize. Each corporation is a small WPA to the extent that it can give employment to expand its facilities.

But the government needs money and must raise it somehow. Government necessity requires ignoring ethical treatment of the taxpayer. This is not the place for details. The alternative is to tax production and consumption more, or the corporation less and the individual more.

Increasing taxes on individual dividends is preferable to increasing taxes on corporation paper profits. A sound tax policy will require clearer thinking than has been displayed in the proposals before Congress.

With Schwabacher & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—John J. Stack has become affiliated with Schwabacher & Co., 600 Market Street at Montgomery, members of the New York and San Francisco Stock Exchanges. He was formerly with Harris, Upham & Co. and E. F. Hutton & Co.

The Advisory Council in the Federal Reserve System

By FREDERIC A. POTTS*
President, The Philadelphia National Bank

Prominent Philadelphia banker describes work of Advisory Council to Federal Reserve Board, and explains controversy regarding bank correspondent system. Says, despite apparent settlement of the Treasury-Federal Reserve dispute regarding interest rates, "politics continue to play large part in financial scheme of things."

The Federal Advisory Council is made up of one representative from each of the 12 Reserve Districts, these representatives being elected respectively by the Board of Governors of the local Federal Reserve Banks.

Frederic A. Potts

The Council was set up in the Federal Reserve Act in 1913 in order that the Board of Governors of the Federal Reserve System in Washington, D. C., could obtain practical information and advice from the representatives of the Banks as members of the Council. On occasions in the past the Council has been referred to, I hope facetiously, as a statutory nuisance!

The proceedings in the meetings of the Council, and those pertaining to the Councils meeting with the Federal Reserve Board, are held in the strictest confidence and are not publicized.

I have now been a member of the Council for the past two years which corresponds approximately with the tenure of office of Mr. Thomas B. McCabe as Chairman of the Federal Reserve Board. At that time, there was considerable misunderstanding among members of the Council as to the motives of the Federal Reserve Board. It is stated that the influence of Mr. Carter Glass, who was largely responsible for the Federal Reserve Act of 1913, was directed toward doing away with correspondent banking and having the clearing of items centralized and concentrated in the Federal Reserve System. Mr. McCabe's predecessor as Chairman of the Board was, and still is, an advocate of the aforementioned stated intent of Mr. Glass and this known fact has been grave concern to the many correspondent banks now represented in the Reserve System.

The present Chairman, however, has immeasurably cleared the atmosphere and a better understanding exists. This does not mean, of course, a complete meeting of minds between Council and Board members, but the areas of disagreement are not as wide.

A few examples of the type of cooperation existing between the Board and Council might be of interest to you:

(1) At the time Great Britain devalued the pound, one of the district banks requested a raise in the re-discount rate to off-set the possibie ill effects of devaluation. Before taking any steps along these lines, the advice of the Council was sought. As a result no action was taken by the Reserve Board.

(2) The Federal Reserve System actively assisted the banks in having legislation passed relieving the banks of a portion of FDIC assessment.

(3) Prior to the establishment of qualitative controls, the Reserve Board discussed the possibilities with members of the Council. I am referring to Regulations W and X.

(4) Consideration is now being given to the establishment of a two-day maximum availability schedule throughout the 12 Federal Reserve Districts and the Board has delayed putting this into effect at the request of the Council.

The big areas of difference lie in:

(1) Reserve requirements particularly with respect to special reserve.

(2) Competition between members of the charter banking system and some of the Federal Reserve Banks, particularly where there is a difference of opinion regarding the boundaries of Regulation Q.

(3) Availability Schedule—The fear amongst the bankers in this respect is that there will be a spread of artificiality in the collection of items and in the granting of credit. This may lead to further such artificiality with immediate availability the end result. The latter would be an important step in eliminating current correspondent bank relations and would be leading toward a more centralized and controlled system.

One of the major items of interest was the difference of opinion last August between the Federal Reserve and the Treasury. There have been differences between the two services before, but never at such a critical moment, nor with a $257,000,000 deficit staring us in the face. The difficulty stemmed from who should control and run the fiscal and monetary affairs of the nation. The Federal claimed statutory powers, but the Treasury said there is no word in the statute saying anything with respect to debt management. This, then, has been the entering wedge through which the Treasury has driven all its forces.

Quite naturally the Treasury wants to keep down the cost of servicing the debt—now $5,000,000,000 to $6,000,000,000. The Treasury has to preserve the sanctity of Government bonds to which the Federal also subscribes. The Federal feels that an increase in the costs of servicing the debt will be small compared to inflationary costs as the Federal is not permitted to use its available credit controls.

The Federal feels it must have leeway to control credit and the monetary supply. It has three areas in which it can operate:

(1) Interest rates — Rediscount rate has been raised from 1½% to 1¾%. In this area also market operations should be included.
(2) Reserve requirements.
(3) Political control in Regulation Q, U, V, W, and X.

Actually the area of dispute between the Treasury and the Federal Reserve was not too far apart, an area you find confined chiefly to flexibilities in the short time rate. Both agencies are agreed on needing the balance on 2½%.

In my opinion, in this aforementioned dispute, the economics of the situation definitely failed at the Federal Reserve action. It is also discouraging, to say the least,

*An address by Mr. Potts at the Philadelphia National Bank Correspondent Bank Forum, Philadelphia, Pa., Dec. 6, 1950.

to realize that politics continue to play such a large part in the financial scheme of things, and that efforts on the part of the Administration to curb inflation, except for the advent of World War III, will probably not go far enough.

The recent announcement of the refunding of the Dec. 15 and Jan. 1 maturities with a five-year, $1\frac{3}{4}\%$ bond, is a reasonable gesture on the part of the Treasury; however, it does tie up the Federal in their efforts to maintain a short-term rate.

From all reports, the bridge between the two agencies is fast closing. Most important of all of this is to have cooperation between the Federal and the Treasury. They must work closely together in mutual confidence and understanding. In matters of this sort a good deal of give and take is needed.

What we don't want to see is a Government-controlled central bank. It is up to us to help maintain our independent privately-owned banking system and in doing so preserve our priceless heritage.

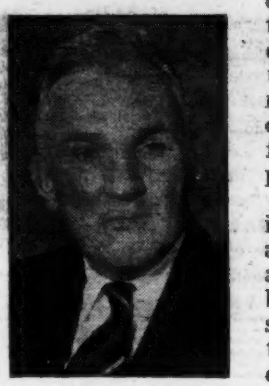
From Washington Ahead of the News

By CARLISLE BARGERON

President Truman, who did not go to college, nevertheless prides himself as a great student of history. But a statement by Abraham Lincoln not quite four score and ten years ago, must have escaped him; certainly it has made no impression upon him.

Just before he made his famous Gettysburg address Lincoln was confronted by a group of newspapermen, and he spoke as follows:

"It is somewhat important in my position that I should not say foolish things if I can help it. And it very often happens that the only way to help it is to say nothing at all."


Carlisle Bargeron

The recently explosive Truman letters which have become public are not the only ones he has penned to those who aroused his ire. In at least one other instance, a well-known Washington correspondent returned the letter with the explanation that Mr. Truman would probably want it back. On another occasion a publisher was readying to publish a scorching letter he had received from the President, but he received another letter apologizing and therefore let the matter drop.

Be that all as it may; it had looked for a time, with the disaster in Korea, that the American people were going to escape, for a time, at least, the yoke that is drawing around them. Inasmuch as our losses in Korea in men and materials cannot be regained, there was some comfort in the fact that our withdrawal from the peninsula meant we did not have to undertake the job of rehabilitating it. A new stand in Asia, in Japan, and around Formosa, would not be very difficult to defend. And the tremendous reaction, or swing to isolationism, on the part of the American people, seemed to militate against our going crazy on military spending. In other words, although it is perhaps not the orthodox way to look at it, it seemed as though the Korean disaster might simplify our world situation, and consequently simplify our situation at home.

Prime Minister Attlee was quite alarmed over these prospects when he got over here to speak strongly and firmly to Mr. Truman as the preceding London press accounts had it, and this resulted in his completely changing his outward tune, not that he changed his inward tune in the slightest. When he got here he was told that the temper of the American people was not only one of washing out the Korean episode, as he desired, but also of letting Europe go hang, and I am using the language of the street, as I heard it here and in the South, and as members of Congress were hearing it in telegrams and letters from every State in the Union.

So the British Prime Minister was confronted with the proposition of soft-pedaling his demand that we forget about China and Korea and Formosa and throw all of our strength to Europe, and doing what he could to bolster up internationalism for the Administration. Thus in his speech before the National Press Club he said that wherever the Stars and Stripes flew in Korea the Union Jack would fly right alongside it.

It now develops that the Administration is prepared to go to any extreme to keep the internationalist fires from dying out. Instead of moving along with our rearmament program in semi-orderliness, with some regard, at least, for the domestic economy, we are now to proceed hell bent and with no regard to domestic dislocations. In fact, we are to have a national emergency with all that that entails with such an impetuous man as Mr. Truman in the White House. We have got to move quickly and regardless of the cost and sacrifice or else we will not survive. The propagandists are even putting their own new and optimistic interpretation on the disaster in Korea. It is not serious, we are being told, to lose just one engagement in a war; it is the overall outcome that counts. Manifestly for this reasoning to hold good, we must have other engagements. The next one we are apparently to have, is for the American economy to be thrown into a straitjacket and that is an engagement I doubt very seriously we will win.

And as I understand it, this is to be the penalty of the American people for the disaster in Korea. It is to be their penalty for breathing a sigh of relief, although burning up at the outcome, over the fact that the appalling loss of men in an utterly foolish endeavor is about at an end. It is to be their penalty for becoming fed up over all this global leadership nonsense of the Administration.

I am afraid that the Republicans aren't going to be able to do much about this state of affairs, either. The propaganda against them is too terrific, and also they are a little nervous about the temper of the people as reflected in the deluge of communications they are getting. There is a feeling among them that the people want to swing back to "isolationism" too far, which is a commentary on the derision they have been taking from commentators and editors about being "isolationists."

Measures of Reasonableness Of Manufacturing Profits

By BERNARD F. MAGRUDER, C.P.A.*
Assistant Professor of Accounting, Wayne University

Accounting instructor reviews complexities in determining reasonableness of corporation profits. Applies tests to measures most frequently used and, in general, finds them inadequate and objectionable. Advocates, instead of excess profits tax, a new renegotiation law to control war profits, and concludes "high profits must be thought of as source of taxes and not as reason for them."

A perennial criticism of corporations is that their profits are unreasonably high. This charge is not based on refinements of definition of the word "profit" but on the belief that prices received for products and services are too high in relation to costs. Before this criticism can be evaluated it is first necessary to consider the functions of profit.


Bernard F. Magruder

While there is no universal agreement as to all such functions, it is generally agreed that recognization should be given to risks assumed and results obtained. In a free competitive system variation in profits channel the use of productive forces so as to meet demand; as the demand is satisfied profits seek a level commensurate with risks successfully assumed and efficiency attained. The forces tending to automatically level profits may cease to be operative when factors such as monopoly or war interfere with free competition. It is then that the demand for profit limitation becomes most insistent. The very charge of unreasonableness assumes some measure of determining what is reasonable. If the purpose is to eliminate excessive war profits, any measure or measures used should attempt to duplicate results obtainable under normal competitive conditions and should be confined to the period of the emergency.

In the Revenue Act of 1950, Congress directed its committees to report "as early as practicable" an excess profits tax "with retroactive effect to Oct. 1, or July 1, 1950." The excess profits tax imposed during both World Wars provided two measures, one of which provided for a credit based on the average profits of a base period. Such a measure penalizes the newly-formed and rapidly, growing companies, and destroys the incentive for cost reduction. Its basic fault is failure to distinguish between justified high earnings and war profits. It can be equitably applied, if at all, only to a static industry and has no general justification in a dynamic economy. Growth has been a striking characteristic of our economy. The aggregate value of national products, adjusted for changes in the value of the dollar and population, has steadily increased despite a reduction in working hours. Risk-taking has been an indispensable factor in this growth, and the willingness to take risks is inseparably coupled with the hope for profit. The provisions in the World War II excess profits tax law attempting to allow for abnormalties and growth led to costly and yet unsettled litigation. The stultifying effect of the use of past averages was not fully realized in the relatively short periods of its prior use, but as a long-range measure it is destructive of the profit incentive and utterly incompatible with our free enterprise system. As a result other measures of a fair return have been suggested.

The Ratio of Profits to Net Worth

A measure frequently used in the past is based on the relative magnitude of profits to net worth. Among others, the National City Bank of New York has for years compiled and published studies showing this ratio; one of the 14 important ratios reported annually by Dunn & Bradstreet is the ratio of profit to tangible net worth; the Federal Trade Com-

Continued on page 91

*An address by Mr. Magruder before the Wayne University Accounting Faculty, Dec. 1, 1950.

COMING EVENTS
In Investment Field

Dec. 14, 1950 (Cincinnati, Ohio)
Cincinnati Stock & Bond Club annual election and winter dinner at Hotel Gibson Ballroom.

Dec. 21, 1950 (St. Louis, Mo.)
Mississippi Valley Group of IBA Christmas Party at the Park Plaza Hotel.

Jan. 16, 1951
National Association of Securities Dealers, Inc., Meeting of Governors and Election of Officers.

Feb. 4, 1950 (Houston, Tex.)
Board of Governors of Association of Stock Exchange Firms winter meeting.

Feb. 6-7, 1951 (San Antonio, Tex.)
Board of Governors of Association of Stock Exchange Firms winter meeting.

Feb. 8-9, 1951 (Dallas, Tex.)
Board of Governors of Association of Stock Exchange Firms winter meeting.

Feb. 21, 1951 (Philadelphia, Pa.)
Investment Traders Association of Philadelphia Winter Banquet.

June 15, 1951 (Philadelphia, Pa.)
Investment Traders Association of Philadelphia Summer Outing and Dinner at the Manufacturers Golf and Country Club, Oreland, Pa.

Nov. 25-30, 1951 (Hollywood Beach, Fla.)
Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

Elected Director

Avery Rockefeller, director of Schroder Rockefeller & Co. and Air Reduction Co., was elected a director of the J. Henry Schroder Banking Corp.

At the same time directors of J. Henry Schroder Bank Corp. and Schroder Trust Co. announced the election of Erich J. Waldek as Assistant Vice-President. Mr. Waldek had previously held the position of Assistant Treasurer. Election was also announced of Sherman Gray and Karl H. Streeck as Assistant Treasurers and of John I. Howell as Assistant Secretary.

IBA Will Continue Its Tasks

By LAURENCE M. MARKS*
Partner, Laurence M. Marks & Co., New York City
President, Investment Bankers Association of America

Incoming IBA President pledges to continue organization's efforts to unite all segments of securities industry so as to promote better public relations and extend education of personnel and improve investment knowledge of public. Sees need for modification of SEC acts.

I am fully appreciative of the toughness of the job of President of the Investment Bankers Association of America, and it has been made even tougher by the grand performances of my predecessors. And in following "Armi" (Albert T. Armitage) as President, I feel like a rookie following Joe Di Maggio on the batting order, just after Joe has knocked a home run over the left field fence. I shall do my best to continue the fine work he has done.

Laurence M. Marks

In the first place I plan to continue the hard work that Mr. Armitage has done on cooperation within the industry. In the past year, it seems to me the IBA, the NASD, the Association of Stock Exchange Firms and the Exchanges have worked together on a united front and there has been a better feeling of cooperation within the industry than ever before.

Secondly, I hope to continue the progress which has been made on the educational program within our organization. During the past year we have rounded out our program with a home-study course which now makes Fundamentals of Investment Banking available to employees of member firms throughout the country.

Likewise, the Education Committee, largely through the efforts of George Davis, has a Manual on Securities Merchandising which is rapidly approaching completion. Both of these reflect the aggressive leadership of Norman Smith who, I am happy to say, will remain as Education Chairman next year.

In the third place, I am delighted to say that Joseph Johnson has consented to head the very important Public Education Committee again this year. We all know the splendid work that Joe has done in the past few years on this very important activity of the Association and I am delighted that he will continue to assume this responsibility.

Through the Public Education Committee member firms and Groups have been stimulated to join the campaign designed to improve public understanding of our business. The accomplishments of member firms and Groups under the spur of Joe's Committee are reported in the IBA Public Education Bulletin, the last issue of which is available here in Hollywood and brings the record up-to-date.

Joe Johnson has done a splendid job with a difficult assignment and I am delighted that he will serve again next year as head of public education. It is my hope that we will make it possible for him further to enlarge his program in the year ahead.

In the fourth place, I feel we will have to do a lot of work on legislation in the course of the coming year, particularly with reference to Section 5 of the Securities Act of 1933. As we all know, this act was passed by an angry Congress seventeen years ago and it has gotten musty. There are a number of provisions of Section 5 which are unworkable and which should be amended. We are fortunate in having as Chairman of the Commission the Hon. Harry A. MacDonald who is one of the few commissioners who ever had practical experience in our business. I know that in the past year Mr. Armitage has spent hundreds of hours in Washington and elsewhere working on Section 5 and it seems to me this will be one of the most pressing problems of the incoming administration.

Finally, I think Mr. Armitage has done a marvelous job in cutting down expenses and running the Association on the right side of the ledger. I am extremely budget conscious myself and early in January, as soon as the final figures for 1950 are in, we are going to have a meeting of the Budget Committee in Chicago to set up our budget for 1951. Notwithstanding the non-recurring anti-trust suit expenses the Association is turned over to me in fine financial shape and I am going to bend every effort to do the same thing for my successor.

I am fully aware of the great responsibilities and the large amount of work with which I am faced, and I am lucky to have some grand assistants.

There are five strong Vice Presidents:

Russell Bell whose resourcefulness, energy and judgment are recognized not only in the Dominion but on this side of the border;

Walter Craigie who gave such fine leadership to the Municipal Bond Committee this past year;

Mark Elworthy, our distinguished Vice President from the Golden Gate.

John Fennelly who has been an IBA tower of strength for many years; and

Joe Johnson whose fine performance as Public Education Chairman I have already noted.

Much of the work of our Association is performed by the chairmen of the national committees and the chairmen of the eighteen territorial Groups. All of these men have been elected or appointed for the year ahead. They are capable, energetic men they have the interests of the Association at heart and I know will turn in splendid performances.

The accomplishments of our Association depend in considerable degree upon staff members. We are lucky to have conscientious and able workers in Murray Hanson, Bob Stevenson, Erwin Boehmler, Dudley Smith and Gordon Calvert and their assistants. They constitute a hard-working and most effective team.

Over-all, my position is similar to that of a hod carrier who was asked if his job was not a hard one. "No," he replied, "all I have to do is fill my hod with bricks, carry it up eight floors, and then the bricklayers do all the real work."

In closing I want to emphasize again that I have an understanding of the responsibilities of the office I have accepted and sense my own limitations. May I repeat the story I told some of the Governors when they informed me of my nomination at White Sulphur last Spring.

It is the story of a man who approached a farmer to buy a cow. He asked the cow's pedigree. The farmer did not know what he meant.

He asked for the butterfat content of the cow's milk. The farmer did not know that.

Finally, he asked, "How many pounds of milk does the cow produce per year?" and the farmer said, "I don't know that either. All I can tell you is that she's a good, honest cow and will give you all she's got."

Gentlemen, I'll give you everything I've got.

*Inaugural address of Mr. Marks as President of the Investment Bankers Association at the 39th Annual Convention, Hollywood, Fla., Dec. 1, 1950.

Achieving Unity in Securities Industry

By ALBERT T. ARMITAGE*

President, Coffin & Burr, Incorporated, Boston

Retiring President, Investment Bankers Association of America

In reviewing past year's activities of IBA, Mr. Armitage stresses the accomplishment of greater cooperation and unity of objectives of the various organizations and segments in the securities industry. Recounts efforts to provide greater education in investment and to achieve new and better methods of advertising. Lauds courtesy and cooperation of all groups and members in his travels in behalf of IBA.

I propose to give you a summary of the activities of the Association for the past year. We began our last Convention with a call for unity of all segments of the industry in the correlated matters of regulation, legislation, and education. I can now report that we have received the assistance and cooperation of the Association of Stock Exchange Firms and the New York Curb Exchange on Education; of the New York Stock Exchange on tax legislation; and of the National Association of Securities Dealers, Inc., on regulation and education. In the area of Education, we have also received assistance from some of the regional exchanges, such as the Los Angeles and Philadelphia Stock Exchanges. Several joint meetings with forums have been held in various parts of the country, with all the associations represented: A meeting at Atlanta sponsored by the Georgia Dealers' Association and the NASD; at San Antonio, sponsored by the Texas Group of the IBA; at Boston, sponsored by the New England Group of the IBA; at Baltimore, by the Association of Stock Exchange Firms. In addition, a special forum in New York was sponsored by the New York Curb Exchange, on the subject of standard rate schedules for the industry.

Albert T. Armitage

We believe that one of our most successful cooperative efforts each year is the joint fellowship for faculty members of American colleges whereby, in combination, the Association of Stock Exchange Firms, the Investment Bankers Association (both national and the New York Group), the National Association of Securities Dealers, the New York Curb Exchange, and the New York Stock Exchange, provide the opportunity for 10 professors, active in the teaching of economics in our American colleges, to spend three weeks in the operating end of the security business. These professors are drawn from all sections of the country.

Our industry has presented a solid front on a number of important matters, such as new bills before the Congress—e.g., certain features of the Frear Bill which would provide additional information for stockholders in unlisted companies; also tax legislation and the formidable Section 5 of the Securities Act.

Group Level Activities

The IBA plan of operation has been to reduce our main activities to the Group level, thence to member level—with a pooling of information between Groups on meetings, forums, education, exhibits, and new methods of advertising. Our 18 Group Chairmen, spark-plugged by Ewing Boles, Chairman of the Group Chairmen's Committee, have been active and versatile, Supplementing the Group activities have been our 21 National Committees with their Chairmen, all contributing their bit to our industry and to the IBA. Without diminishing the credit belonging to any of these Committees, I call your attention especially to the achievements of the Public Education Committee and the Education Committee. I believe you will find their reports, and those of the other National Committees, both timely and interesting.

During the year your President, accompanied by our General Counsel, Murray Hanson, visited all the Groups and also personally called on individual members in all sections of the country wherever time permitted. In Cleveland, the Northern Ohio and Ohio Valley Groups held a joint meeting which simplified our travel problem in Ohio. In Canada, we attended the convention of the Investment Dealers Association of Canada held at Montebello, and through the courtesy of this Association held our Canadian Group meeting there, with considerable success. It was well attended and the suggestion was made afterwards that this joint effort be informally continued.

At all these meetings we stressed the importance of both public and internal education, and I think it safe to say that because of these meetings our Association is becoming better integrated.

Contacts With Other Associations

In addition to our Group meetings, we have kept close contact with the other associations of our industry as well as outside organizations such as the American Bankers Association and National Association of Manufacturers. At the Convention of Security Administrators held in Detroit, our Association was represented by Charles Vrtis, Chairman of our State Legislation Committee, and our Assistant General Counsel, Gordon Calvert. At the annual meeting of the World Bank, held in Paris, Past President Hopkinson and Vice-President Johnson were our representatives. At the meeting of the Conference of National Organizations held at Atlantic City in June, your Association was represented by Past President Hopkinsons, Murray Hanson and your President; at the second meeting held in Chicago in November, your representatives were Past President Collins and Murray Hanson. The Executive Committee and the Conference Committee held a joint meeting in Wasihngton Oct. 30-31, and I think the report of the Conference Committee will be most interesting. During the year we held two Governors' Meetings: One in Chicago Feb. 3-5, which appears to have drawn the largest attendance of any Governors' Winter Meeting in the history of the Association. We also held our usual Spring Meeting of Governors at White Sulphur, together with Committee Meetings, and a large number of Committee men and past Governors were in attendance. Both meetings proved beneficial in building further interest and activity in the Association.

Your General Counsel, Murray Hanson, and the President have been active in working with the SEC Commissioners and their staff toward simplifying rules and regulations under the Securities Act and in the hope of presenting unanimous suggestions on the part of the SEC and the industry before the next Congress for improving the present Act. In this work we have become well acquainted with all five Commissioners and I can testify that they are a hard-working, well-informed and sympathetic board, charged of course with the duty of administering the law to the best of their ability. It is my earnest hope that our Association will continue to follow these contacts.

Your General Counsel and President have also been active with the other associations in the securities field and have kept in close touch with the Association of Stock Exchange Firms, the NASD, the New York Stock Exchange and the New York Curb; as well as many of the regional exchanges; also through our Municipal Securities Committee we have maintained contacts with most of the municipal bond clubs throughout the country.

Budget in Balance

When the Finance Committee reports to the Governors, I believe the report will carry a most pleasant note. I feel our entire membership should know that our budget is in balance with a fair surplus.

I am indebted to all the Group Chairmen, the National Committee Chairmen and their Committees, as well as the entire staff of the Association, for their earnest endeavors and splendid cooperation.

The efforts of our Association this year have been to promote unity within the industry, to increase public interest in the security business, to broaden the ownership of investments in this country, to stimulate the activities of the industry in these directions, and, last but not least, to arouse interest in our Association and enlarge its membership. As an effective advocate for the investment business our Association now occupies a leading role. Judging from the enthusiasm shown at our Group meetings, the increased interest on the part of the press, the inquiries from members of Congress, and the desire of the general public to become informed about the security business, I believe that this industry of ours is beginning to assume its rightful position in our economy as an essential part of our daily lives.

In my travels East and West, North and South, I have met with unfailing courtesy and cooperation from all the members of our Association which merely confirms my long-standing belief that no finer group of people can be found than in this industry of ours. We are equipped with the necessary experience, knowledge, ability and vision to perform a great service, which is to encourage thrift and induce more people to invest in America. Spreading the ownership of business and industry will contribute as much as anything to maintaining the American way of life.

I have been thrilled by the challenge to our industry, and it has been a privilege to serve as your President.

*Address by Mr. Armitage at First Session of 39th Annual Convention of Investment Bankers Association of America, Hollywood, Fla., Nov. 27, 1950.

Output, Not Controls—Key Weapon In Crisis!

By LEON H. KEYSERLING*
Chairman, Council of Economic Advisers

Chief Administration economic spokesman, pointing out there will be a long pull ahead in defense program, whether or not we have an all-out war, advocates expanding production with a national output goal of $500 billion annually. Wants self control of all elements in economy rather than government controls, but expresses view inflation cannot be avoided by expanded production. Urges pay-as-you-go taxation, and decries recent wage and price rises as unnecessary and causes of current inflation.


Leon H. Keyserling

One of the reasons I haven't what is referred to as "a prepared talk" is that when conditions, and more particularly the international problems which primarily underlie them, seem to change so rapidly, if I prepared something two or three days ago, it might be out of date. That might seem to be particularly true in view of what you have been reading in your newspapers and hearing on your radio in the last day or two. However, the opposite side of the question, which is the more important, is I do not really believe that international conditions or economic conditions change very much from day-to-day. I think that one of the most important tasks we have on the international scene is to take a somewhat longer aspect than the day-to-day view, so as to realize that great trends in the development of our own economy or in world affairs do not rise from day-to-day nor change from day-to-day and will not be settled from day-to-day.

To take an example that will be close to some of us here. I can not explain—maybe some of you can—why the stock market went down yesterday, and I am pretty sure none of you here can tell me what it is going to do tomorrow. I don't believe the day-to-day changes in our economic affairs or international affairs are very significant, although they may be disturbing from day-to-day, but I do know in the long run the stock market and business conditions will all reflect in the final analysis, what happens to the economy of the United States as a whole or what happens both to the United States as a whole or to the world as a whole, and if we keep our eyes primarily on these basic problems and will not be drawn to far away from them by seeming day-to-day oscillations, undulations, or hopes and fears and expectations, then we will all get —the government no less than business—a more mutually advantageous situation.

I am supposed to be here to talk about economic problems, and I hope to answer some questions you may have, but I think I must say something first about the international situation, not because I am an expert in that field —because nobody is an expert in that field in its various channels. The situation confronting the United States and confronting the people of the world is the problem of everybody, because only through business understanding, and the decisions and attitudes and feelings of the American people as a whole will we be able to work out the long and hard tasks which confront us.

To take an example from the international situation to illustrate the point:

It is perfectly true that some of the developments that have taken place from day-to-day were in a narrow sense unexpected. Nobody knew exactly what the Chinese, backed by their mentors, were going to do yesterday, today, or tomorrow, but thoughtful and sober people throughout the United States, outside and inside the government, did not from the beginning, I believe, think that we had a short run on our hands, but that we did have on our hands, in one way or another, a long hard pull if not a third world holocaust, to work our way through to a basic and secure world, which we certainly do not live in now.

Defense Burden for a Long Period

I have not anywhere in the country run into anyone who did not realize whatever might have been done from day-to-day, whatever methods, whatever kind of operations our adversaries were going to employ their strength in, they were going to use their strength, and since they had great strength, they did not intend using it to good purposes, and that we had to face up to that problem. With that in mind one gets a clearer understanding of the international situation confronting us, and the matters of defense and economic policy which follow from that situation. Because from that situation flows the clear certainty that we have a number of years—hard to know how many—but we have a number at best, and at best I mean with most favorable unfolding of world events, and not at least—the least would be the outbreak of the third World War—but with the most favorable unfolding of world events, toward which we must certainly bend every energy and effort—even with the most favorable unfolding, we are going for many years ahead to be faced with serious international trials and are going for many years ahead to have to bear a large and increasing defense burden.

If anybody thinks that the blue chips of international security can be bought for the price of cats and dogs, they make a fundamental mistake as to the problems confronting the people of the United States. Anyway, it is going to be costly and its is going to be long, and if we are not willing to pay for blue chips we will get only cats and dogs.

Now, how costly is it going to be? Nobody knows exactly, because it is an unfolding situation, but it is not going to be as costly as two other alternatives. One other alternative would be to assume that without living up to the responsibilities which face the United States and face all the free people of the world, we can buy security the cheap way. That is, by failing to face the problem confronting us we can withdraw into a shell, neglect our national defenses, avoid international obligations, find some cheap and easy way to win our security. But on the basis of historic events and the events of the last few days, it is clear that we would win nothing and lose everything that way. The other extreme would be to say the die has been finally cast and we must at once embark upon the kind of all-out military mobilization and all-out economic mobilization, which in effect euphemistically describes what would be engaging in all-out war.

There are some who believe that this is the only course we can now follow, and I respect their views and believe that they should have the right to present them freely in open debate for that is the only way we can arrive at decisions. But I don't share their views. I think we can work out what, in the long run, would be more important; that it should seem to the people throughout the free world that we are not aggressors; that we are striving for the right, for a moral purpose and fundamentally securing of objectives that in every context thus far proved—proved as well in our economic or military strength.

There is at present a bill up for national defense. I am only at liberty at present to make a suggestion on that, that it is reasonably large. The President stated a month or so ago something to the effect that by the end of the fiscal year 1951—July of 1951—our national defense expenditures would be running at at least $30 billion a year, and possibly much more than that. I think there is a concensus and understanding in view of recent events that this estimate was not an understatement of the total.

There is a very interesting article by Marriner Eccles of the Federal Reserve Board in the last issue of "Fortune," called "Defense of the Dollar," in which he undertakes to assume the goal for national defense would bring the total budget to the neighborhood of $75 billion or one-fourth of the total national output of $300 billion. I am not in a position to subscribe to or validate that estimate. I offer it only to point out the range of thinking in which people who are responsible will consider problems. Now there are also other good points in the article and also points to which I would not agree

Continued on page 36

*Stenographic report of an address by Mr. Keyserling at the 39th Annual Convention of the Investment Bankers Association of America, Hollywood, Fla., November 29, 1950.

Fundamentals of Public Relations Program

By CLIFTON W. PHALEN*
Vice-President, American Telephone & Telegraph Company

Mr. Phalen presents three fundamentals for a sound public relations program, viz., (1) a well defined statement of a concern's public policy; (2) a continuing program for telling about what it is doing; and (3) courtesy and helpfulness at every point of public contact. Explains working of Bell Telephone System's program along these lines and media and slogans used to accomplish ends desired. Stresses courtesy and friendliness as of top importance.

It seems to me that you in the investment banking business have a good deal in common with those of us engaged in telephone work. We share certain important problems and we also have similar opportunities, so I don't feel far afield coming here today to discuss a few ideas and experiences with you.


Clifton W. Phalen

What I have just said calls to mind an incident last summer at the Chicago Fair, where the Bell Companies had an exhibit designed to show visitors some of the interesting things about our business. This exhibit included among other things a device some of you may have seen—what we call a Voice Mirror. When you speak into the Voice Mirror, a few seconds later it repeats your words so that you can hear your own voice.

Well, one woman who perhaps didn't quite understand what this was all about, but still wanted to try the thing out, stepped up and spoke something like this into the machine, "Mah name is Rosa Bell Johnson and ah lives on such-and-such a street, Chicago."

A few seconds later she heard her own words coming back at her through the receiver she was holding to her ear. Her eyes popped.

"Well, ah declare!" she said. "We must be neighbors!"

Now investment banking and telephone work may not be quite so closely identified with each other as were this good lady and her mysterious neighbor. Yet they are alike in certain very important respects. For example, your work and ours are both essentially service activities. They are both continuously necessary to the progress and prosperity of the country. And to provide these services, both you and we must not only know our jobs well; we must also keep in a strong and sound position, and at all times we must merit and hold the confidence of the man in the street.

When Mr. Johnson and Mr. Boehmler of your Association invited me to talk to you about Bell System public relations, they were kind enough to suggest—being good public relations men themselves—that I might be able to tell you something from our experience that would be helpful to you. Since then I have had a chance to look at some of the bulletins that describe your public relations program and I seriously doubt if any suggestions or comments are needed from me. However, your emissaries were persuasive—so here goes.

Three Fundamentals

In the Bell System we start with the premise that a good telephone service job is the necessary foundation for building and keeping good relations with the public. That is fundamental with us as it is with any business, and I just want to make clear that the rest of what I am going to say stands on that base.

But over and above this bedrock need for giving a good and improving service, it seems to me there are three other things that are also important to almost any business if it wants to gain public acceptance. In our business at least, we think they are essential.

The first of these essentials is to know, to define and to say what you think your job and your responsibilities are. Public expressions of this kind usually take the form of a statement of policy. In my opinion a clear statement of a company's basic policy is the foundation on which any public relations program must be built.

Second, a business has a day-to-day job of telling people about its operations, results and future objectives in the light of its publicly stated policy. The other day the schoolboy son of a friend of mine came home and asked his father, "What was the biggest island in the world before the discovery of Australia?" His father said, "All right, I'll bite. What was it?" And the answer was, "Australia." You can do the best job in the world and not get credit for it unless you give people the chance to discover what you are doing. So we believe that the telephone business, which touches the lives of millions, must tell the public what is going on. Only if people know us can they have confidence in us. And only if they have confidence will the public give us freedom to operate. If we are not frank in telling our story, we will not be free to serve.

Third, I think it is essential to see that all contacts with the public are handled courteously and with a sincere desire to be helpful to each individual person you are deling with. This goes beyond the dictates of "good business." It should become a way of life. If we are reasonable and polite with people, they will like us and have confidence in us—and we will get more pleasure and satisfaction out of our jobs.

So, to restate my three fundamentals briefly, they are: first, a well-defined statement of basic policy; second, a continuing program for telling about what we are doing; and third, courtesy and helpfulness at every point of public contact. You might say that the first establishes your reason for being; the second is aimed at getting public understanding and confidence, and the third is to win friendship and liking as well as respect.

The Bell System's Program

Since the policy is the starting point, let me say just a few words about ours. The Bell System has had one for a long time. It wasn't born overnight, but developed and crystallized through experience, and was publicly stated many years ago. Since then it has clearly told the public and the country where we stand and has been a creed for those inside the business to look up to.

All the activities of the Bell System are tied to this policy. It has been a steady beacon by which we have guided our business course. The policy is, in brief, to provide the best possible telephone service at the lowest possible cost, consistent with financial safety and fair treatement of employees.

The results of publicly stating the policy were at first more important inside the business than outside. The phrase "best possible service" became an instant and continuing challenge to improve the service. At the same time the statement gave greatly increased impetus to informing employees about the business. It was distributed generally to employees and its meaning as applied to their jobs was discussed. The value of doing this quickly became apparent, and led the System into a continuing program to give all employees a better understanding of the business and therefore more capacity to do their jobs well.

I am sure your association has a policy and I imagine you have found that any policy, to be really effective, must first be reduced to simple words. That is one essential. The second essential is that once we have the words we have to keep on saying and repeating them — emphasizing and re-emphasizing them over and over again. That's what makes the policy a spur to action. And therein lies one of its great values. For the policy should be a full commitment that will never let you rest. You give a hostage to the future and action is demanded. You are out on a limb of your own making, with no possible chance of climbing back. That is exactly as it should be, for as we see it, 90% of our public relations is in doing the job and 10% is in telling about it, and the policy should keep everybody squarely on the track of the 90%.

So much for the policy. As to the other 10%, I wouldn't want you to think that we consider it unimportant just because I put that percentage tag on it. On the contrary we in the Bell System have felt for a long time that informing the public is a vital part of our job. We feel this the more because we are owned by the public—there are 980,000 stockholders—and we are regulated by the public's representatives. So the telephone business begins with public permission and exists by public approval.

In telling our story we have found that the public already has a measure of curiosity about the familiar telephone instrument and what is behind it, and so they like to come into telephone offices and see the equipment, meet telephone people and observe how they handle their calls.

From coast to coast visitors have attended these open house programs by the thousands. They have gazed at the amazingly ordered world of cables and wires and frames and switchboards and dial apparatus and power equipment. They have exclaimed over the clean, efficient and comfortable quarters. But most important of all they have met telephone people at work and have heard them describe their jobs and the equipment with obvious pride and with eagerness to be helpful. And so they have gone away with increased confidence in us.

I know that many of you also hold open houses and to me it seems one of the most effective things you could be doing. To bring customers or potential customers into your places of business, showing them how you operate, letting them meet your people, and telling them your objectives, is bound to increase their confidence and understanding.

We also find that service clubs and social clubs, businesmen's and women's organizations, schools and trade groups make frequent requests for speakers or demonstrations. In each Bell telephone company there are people qualified to handle this activity, and we try to equip them with demonstration apparatus and visual aids helpful to an interesting presentation. In addition, some of the telephone companies have worked up short dramatic sketches, primarily designed to teach correct telephone usage, which are presented by a cast of three or four telephone people.

Smaller audiences frequently are addressed by telephone managers, chief operators, chief switchmen and other local supervisory people. They are not always trained speakers but they are well able to introduce one of our motion pictures to a group of their friends and neighbors, tell them something about their own jobs and problems and answer their questions.

I know that you also engage in such activities and I recommend them most highly.

Valuable Media in Reaching Public

Another thing that has been helpful to our organization is the use of bill inserts. All the Bell telephone companies have inclosed inserts of one kind or another with their bills for years. Surveys show that one-third of

Continued on page 32

*An address by Mr. Phalen at the 39th Annual Convention of the Investment Bankers Association of America, Hollywood, Fla., Nov. 28, 1950.

In Attendance at IBA Convention

ABRAMS, Jr., JAMES S.
Allen & Company, New York

ADAMS, WILLIAM M.*
Braun, Bosworth & Co. Incorporated, Detroit

AGEE, RUCKER*
Sterne, Agee & Leach, Birmingham

ALDEN, Jr., WILLIAM O.
O'Neal-Alden & Co., Inc., Louisville

ALDINGER, CYRUS B.
Fordon, Aldinger & Co., Detroit

ALDRICH, GEORGE D.*
The Parker Corporation, Boston

ALEXISSON, GUSTAVE A.
Granbery, Marache & Co., New York

ALLEMAN, F. MONROE
Leedy, Wheeler & Alleman, Inc., Orlando

ALLEN, E. RAY
Stranahan, Harris & Co., Inc., Chicago

ALLEN, SIDNEY P.
San Francisco Chronicle, San Francisco

ALLEY, WILLIAM M.*
A. E. Ames & Co., Inc., New York

ALLYN, ARTHUR C.
A. C. Allyn & Co., Chicago

ALLYN, JOHN W.
A. C. Allyn & Co., Chicago

ALTGELT, Jr., ERNEST J.*
Harris Trust & Savings Bank, New York

AMAZEEN, EDWARD S.*
Coffin & Burr, Incorporated, Boston

AMES, AMYAS
Kidder, Peabody & Co., New York

AMORY, HARCOURT
Smith, Barney & Co., New York

ANDERSEN, JONAS C.
Kuhn, Loeb & Co., New York

ANDERSON, EDWARD C.
Anderson & Strudwick, Richmond

ANDERSON, HERBERT R.
Distributors Group, Incorporated, New York

ANDERSON, Jr., WILLIAM J.
Equitable Securities Corporation, Nashville

APPLEGATE, ARTHUR LOWRIE*
Geo. G. Applegate & Co., Pittsburgh

ARMITAGE, ALBERT T.
Coffin & Burr, Incorporated, Boston

ARNHOLD, HENRY H.*
Arnhold & S. Bleichroeder, Inc., New York

ARNOLD, H. WILSON*
Weil & Arnold, New Orleans

ARNOLD, HAZEN S.*
Braun, Bosworth & Co., Incorporated, Toledo

ARRIES, DON E.
D. E. Arries & Co., Tampa

ARTHURS, ADDISON W.*
Arthurs, Lestrange & Co., Pittsburgh

ASHPLANT, FREDERICK B.
F. B. Ashplant & Co., New York

ATWILL, Jr., WILLIAM*
Atwill and Company, Miami Beach

AVERELL, ALFRED B.
Bache & Co., New York

BAIRD, ANDREW M.*
A. G. Becker & Co., Chicago

BAKER, RALPH D.
James Richardson & Sons, Winnipeg

BALLARD, NEIL
Harold H. Huston & Co., Seattle

BANEY, ARTHUR L.
E. R. Jones & Co., Baltimore

BARBOUR, PHILLIPS T.
The Bond Buyer, New York

BARCLAY, Jr., WILLIAM K.*
Stein Bros. & Boyce, Philadelphia

BARR, F. SEYMOUR*
Barr Brothers & Co., New York

BARRET, JOHN H.
Barret, Fitch & Co., Inc., Kansas City

BARRINGTON, CHARLES S.
Harry Downs & Co., New York

BARRY, EUGENE P.*
Shields & Company, New York

BARTELT, EDWARD F.
Treasury Department, Washington

BARTLETT, GEORGE L.
Thomson & McKinnon, New York

BARTOW, CLARENCE W.*
Drexel & Co., New York

BARTOW, Jr., FRANCIS D.
Bartow Leeds Co., New York

BARTOW, PHILIP K.
Wood, Struthers & Co., New York

BASSETT, EARL K.
W. E. Hutton & Company, New York

BATEMAN, FRANK B.
Blair, Rollins & Co., Incorporated, New York

BAXTER, DANA F.*
Hayden, Miller & Co., Cleveland

BECKETT, THOMAS*
First Southwest Company, Dallas

BEECROFT, HARRY*
Beecroft, Cole & Co., Topeka

BELL, RUSSELL D.
Greenshields & Co., Inc., Montreal

BERGMANN, CHARLES L.
R. W. Pressprich & Co., New York

BIANCHETTI, A. J.
Barr Brothers & Co., New York

BIGGER, RICHARD A.*
R. S. Dickson & Co., Inc., Charlotte

BIRD, ESTEBAN A.*
Government Development Bank, Puerto Rico

BISCOE, Jr., HOWARD M.*
Whiting, Weeks & Stubbs, Boston

BLAIR, EDWARD McCORMICK
William Blair & Company, Chicago

BLAKE, JOHN L.
Eaton & Howard, Incorporated, Boston

BLAKE, SIDNEY S.*
H. M. Byllesby and Company, Inc., Philadelphia

BLYTH, ROBERT B.
The National City Bank of Cleveland, Cleveland

BOEHMLER, ERWIN W.
Investment Bankers Association, Chicago

BOGERT, Jr., H. LAWRENCE
Eastman, Dillon & Co., New York

BOLES, EWING T.*
The Ohio Company, Columbus

BOLGER, JOHN F.*
Shillinglaw, Bolger & Co., Chicago

BOLTON, FREDERICK J.
H. V. Sattley & Co., Inc., Detroit

BONNER, DOUGLAS G.*
Bonner & Gregory, New York

BONNIWELL, D. R.
Government Development Bank, Puerto Rico

BORKLAND, Jr., ERNEST W.*
Tucker, Anthony & Co., New York

BOWMAN, FRANCIS B.
The Chase National Bank of the City of New York, New York

BOYCE, C. MEREDITH
Mercantile Trust Co. of Baltimore, Baltimore

BOYCE, C. PREVOST*
Stein Bros. & Boyce, Baltimore

BOYD, T. HENRY
Blyth & Co., Inc., New York

BOYNTON, ELWOOD D.
Hallgarten & Co., New York

BRADFORD, J. C.
J. C. Bradford & Co., Nashville

BRADLEY, S. WHITNEY
Eaton & Howard, Incorporated, Boston

BRAY, ROBERT M.
Trust Company of Georgia, Atlanta

BRAYSHAW, DONALD B.*
Lord, Abbett & Co., Atlanta

BREW, CHARLES W.*
Brew Emch Jenkins Co., Milwaukee

BREWER, ORLANDO S.*
Phelps, Fenn & Co., New York

BRICK, JOHN
Kidder, Peabody & Co., New York

BROOKE, Jr., FRANCIS M.*
Brooke & Co., Philadelphia

BROOME, ROBERT E.*
Guaranty Trust Company of New York, New York

BROOME, Jr., STOCKTON
Stockton Broome & Co., Atlanta

BROWN, AUSTIN
Dean Witter & Co., New York

BROWNE, KENNETH C.*
New York Times, New York

BRUCE, MALCOLM C.
Conrad, Bruce & Co., San Francisco

BRYAN, JOHN E.
Cleveland Plain Dealer, Cleveland

BRYANT, EMMONS*
Reynolds & Co., New York

BRYCE, T. JERROLD
Clark, Dodge & Co., New York

BUDD, Jr., JAMES S.*
The Citizens and Southern National Bank, Atlanta

BURKE, PAULEN E.
Burke & MacDonald, Kansas City

BURKHOLDER, III, JAMES R.
Russell, Long & Burkholder, Lexington

BURNS, Jr., JAMES F.
Harris, Upham & Co., New York

BUSCAGLIA, RAFAEL
Government Development Bank, Puerto Rico

BUSH, ROLLIN C.
The National City Bank of New York, New York

BUTCHER, W. W. KEAN*
Butcher & Sherrerd, Philadelphia

BUTLER, W. R.
New York Herald Tribune, New York

BYRNE, WILLIAM D.*
Byrne & Phelps, Inc., New York

CAHN, Jr., WILLIAM M.*
Henry Herrman & Co., New York

CALDWELL, G. JAMES
Caldwell Phillips Co., St. Paul

CALLAGHAN, JOHN W.
Goldman, Sachs & Co., New York

CALLAWAY, Jr., DAVID H.*
First of Michigan Corporation, New York

CALVERT, GORDON L.
Investment Bankers Association, Washington

CANAVAN, JAMES M.
Smith, Moore & Co., St. Louis

CAPEK, CHARLES A.
Lee Higginson Corporation, Chicago

CARBERRY, PATRICK
Wall Street Journal, New York

CARDWELL, MARION H.
J. J. B. Hilliard & Son, Louisville

CAREY, CHARLES A.*
Harris Trust & Savings Bank, Chicago

CARRINGTON, WILLIAM G.
Ira Haupt & Co., New York

CARROLL, LEE W.
Lee W. Carroll & Co., Newark

CARTER, Jr., HUGH D.
Courts & Co., Atlanta

CASEY, J. DOUGLAS
A. C. Allyn and Company, Incorporated, Chicago

CASSELL, CLAIR F.*
C. F. Cassell & Company, Inc., Charlottesville

CECIL, O. V.
Merrill Lynch, Pierce, Fenner & Beane, New York

CHAMBERLAIN, M. P.
Chemical Bank & Trust Co., New York

CHANNER, Jr., GEORGE S.
Channer Securities Company, Chicago

CHAPMAN, RALPH
Farwell, Chapman & Co., Chicago

CHAPMAN, R. C.
Maynard H. Murch & Co., Cleveland

CHAPPELL, WILLIAM B.*
The First Boston Corporation, New York

CHILDRESS, FRANCIS B.
Childress and Company, Jacksonville

CHILES, WARREN D.*
Chiles, Huey Co., Omaha

CLAPP, Jr., JOHN J.*
R. W. Pressprich & Co., New York

CLARK, GEORGE E.*
Adamex Securities Corporation, New York

CLARK, ROBERT E.*
Calvin Bullock, New York

CLARK, WILLIAM*
Merrill, Turben & Co., Cleveland

CLARKE, HAGOOD*
Johnson, Lane, Space & Co., Inc., Atlanta

CLARKE, Jr., HAGOOD
Atwill and Company, Miami

CLARKE, JOHN W.
John W. Clarke & Co., Chicago

CLAYTON, C. COMSTOCK
Clayton Securities Corp., Boston

CLEAVER, JAMES P.
Goodbody & Co., New York

CLIFFORD, HARRY C.
Kidder, Peabody & Co., New York

COGGESHALL, GEORGE K.*
Schoellkopf, Hutton & Pomeroy, Inc., New York

COHEN, MORTIMER A.*
Sterne, Agee & Leach, Montgomery

COHU, HENRY WALLACE*
Cohu & Co., New York

COLLIER, W. T. K.
Collier, Norris & Quinlan, Montreal

COLLINS, JULIEN H.
Julien Collins & Company, Chicago

CONDON, JOSEPH P.
McDougal & Condon, Inc., Chicago

CONDON, RAYMOND V.*
B. J. Van Ingen & Co., Inc., Chicago

CONNELY, EMMETT F.
American Securities Corporation, New York

COOK, A. HALSEY
The National City Bank of New York, New York

COOK, ROBERT H.
B. J. Van Ingen & Co., Inc., Miami

COOPER, WALTER W.
F. S. Smithers & Co., New York

CORRINGTON, JOHN W.*
Paine, Webber, Jackson & Curtis, Chicago

COUFFER, JAMES G.*
B. J. Van Ingen & Co., Inc., New York

COUIG, J. DALTON
Hirsch & Co., New York

COURTS, MALON C.*
Courts & Co., Atlanta

COURTS, RICHARD W.
Courts & Co., Atlanta

COWGILL, ELVYN S.*
Delaware Fund Distributors, Inc., New York

CRABB, EARL E.*
Investors Diversified Services, Inc., Minneapolis

CRAFT, ROBERT H.*
Guaranty Trust Company of New York, New York

CRAIGIE, WALTER W.*
F. W. Craigie & Co., Richmond

CRANFORD, JAMES A.*
The Atlantic National Bank of Jacksonville, Jacksonville

CROLL, JOSEPH D.
Asiel & Co., New York

CROSS, CALVIN M.
Hallgarten & Co., New York

CROSS, LOUIS J.
Paul H. Davis & Co., Chicago

CROUSE, CHARLES B.
Crouse & Company, Detroit

CROUTER, GORDON*
DeHaven & Townsend, Crouter & Bodine, Philadelphia

CROWELL, WARREN H.*
Crowell, Weedon & Co., Los Angeles

CULBERTSON, WILLIAM H.*
Merrill Lynch, Pierce, Fenner & Beane, New York

CUNNINGHAM, SAMUEL K.*
S. K. Cunningham & Co., Pittsburgh

Continued on page 43

*Dcnctes Mr. and Mrs.

Sharp Decline in Industrial Security Offerings

Industrial Securities Committee, under chairmanship of Robert W. MacArthur, points out, despite excellent stock market conditions and expansion of industrial plants and facilities, new industrial offerings in current year were disappointingly small. Reveals continued high level of private placements.

In delivering the report of the Industrial Securities Committee to the 39th Annual Convention of the Investment Bankers Association of America at Hollywood, Fla. on Dec. 1, Robert W. MacArthur of Paine, Webber, Jackson & Curtis, revealed that the decline in offerings of new industrial securities has continued in current year and, despite a favorable stock market, they "were disappointingly small."


R. W. MacArthur

The text of the Committee's report follows:

By way of review, the peak of postwar industrial financing for refundings, working capital and plant expansion was reached in 1946 when some $3,701,000,000 of bonds and stocks were offered both publicly and privately. This amounted to nearly 55% of all corporate offerings.

A sharp drop in offerings occurred in 1947, held about even in 1948 and then receded further in 1949. 1950 will register the lowest volume level in years, notably in public offerings.

Traditionally, periods of prosperity have been reflected in a rising and active stock market and industrial expansion requiring funds for additional plant or working capital, or both. Debt and equity financing on a large scale publicly usually have occurred at such times in the past. Favorable markets also have permitted the distribution of securities of new companies. The Committee report of last year pointed out until the latter part of 1949 there had not been favorable market conditions in about three years for the latter type of financing and stated that the outlook for 1950 offerings of new industrial equities depended primarily on the general stock market. That observation was certainly warranted on the basis of past experience, but despite excellent market conditions and expansion of industrial plant and facilities, new public offerings were disappointingly small.

Market Conditions 1950

From a "volume" standpoint, 1950 will prove to have been the best in at least 14 years on the New York Stock Exchange. In the first 10 months of 1950, the turnover of shares on the Big Board has been more than double the volume handled in the same portion of 1949. The volume for that perior (roughly 421,894,596 shares) exceeded the business handled in any full year since 1937 when the volume totalled 409,464,570 shares. If this year's aggregate volume tops the 496,046,869 figure in 1936 (a good possibility) it will be the biggest volume in 17 years (or since 1933, when 654,816,452 shares were handled).

Price-wise, this "mid-century" year of 1950 will also go down in history as a banner year. Already in 1950 more than 75 stocks have attained new all-time highs.

The typical or average industrial stock recently sold at the highest level in about 21 years. This statement is based on Standard & Poor's weekly index of 365 industrial stocks which reached a 1950 high on Oct. 25 at 171.4. Latter figure is the highest for this index since the fourth week of October, 1929. Incidentally, the 1950 high is only 13.3% below the all-time high registered in 1929 at 197.7.

Plant & Equipment Expenditures 1950 by Industrial Companies

The Korean War has caused American business to revise upward plans for capital expenditures. Manufacturing companies (according to a Securities and Exchange Commission statistical report) have a planned outlay of $4.4 billion in the last six months of 1950—an all-time high. For the full year, outlays may total $7.8 billion, as compared with $7.2 billion in 1949.

A preparedness economy will undoubtedly force further expansion of industrial facilities. The question is whether this, together with favorable market conditions, will result in an increased public flow of new industrial securities. So far it has not. The impact and uncertainty of higher taxes may, despite government urging, delay many large expansion plans being put into effect. High taxes will increase the volume of debt financing for this purpose and further accentuate the private placement trend. New equity financing publicly will be penalized by a high tax structure.

The reasons for a shrinking volume of publicly offered industrial securities are not hard to find. Sell and lease-back arrangements may have in part, reduced the need for new capital for expansion purposes. Purchases of companies by charitable institutions have also kept a fairly large volume of new stock issues from the market, but this will no longer be a factor in view of the changes in the tax bill. Businesses in general have built up strong working capital positions and these funds, together with serial bank loans, also have reduced the necessity of seeking money publicly. Government loans have and will be an increasingly large factor.

The main reason for the receding flow publicly of industrial issues is indisputably private placements with insurance companies. The latter have become the largest and most effective competitors of the investment banker. This evolutionary development, given added impetus and growth by the Securities Act of 1933, undoubtedly will continue to expand and to shut off a substantial volume of public offerings of industrial securities through investment banking channels for some time to come. Debt rather than equity financing by large and small companies is fostered by this method. The tremendous pressure of funds that have to be invested will increase this competitive threat in the future. It is estimated that investments of life insurance companies alone are now running in excess of $1 billion monthly, or several billion dollars annually more than the average yearly public and private offerings of corporate securities in recent years. It is obvious that insurance companies will continue to absorb a substantial portion of all corporate offerings and be the determining factor in marketing terms. The investment banker, even though he shares in some part of private placement business, is being relegated to the background. Public bidding on utility issues has reduced profits of the industry to a historically low level and has increased commitment hazards. The trend of private placements of industrial securities (mostly debt and preferred stock) also has unfavorable long-term implications, particularly from the standpoint of new equity issues.

At the spring meeting of the IBA at White Sulphur, this Committee reported on the strong trend to private placement of industrial securities. We believe it is important in this report to repeat these figures as they have vital significance in attempting to interpret the future of investment

Continued on page 31

PUBLIC vs. PRIVATE INDUSTRIAL FINANCING
(Estimated gross proceeds in millions of dollars)

Year—	*All Industrial Issues	% of Total Corporate Offerings	*Publicly Offered	*‡Privately Placed	Priv. Placed % of Total Industrial Offerings
1945	$2,026	34.3%	$1,344	$682	33.7%
1946	3,701	54.8	2,293	1,408	38.0
1947	2,742	42.4	1,201	1,541	56.2
1948	2,809	40.2	801	2,008	71.5
1949	2,187	36.7	663	1,524	69.7
9 Mos. 1950	1,331		†502	†829	62.3
Total	$14,796		$6,804	$7,992	
†9 Months 1949			$621	$1,102	

*SEC data. Figures obtained from Division of Trading and Exchanges.
‡Substantially in the form of debt.

CORPORATE SECURITIES OFFERINGS
(Taken From SEC Statistical Bulletins)
Including Private Placements and Unregistered Issues but Excluding Commercial Bank Term Loans

Proposed Uses of Net Proceeds	8 Months Ended Aug. 31, 1950	1949	1948	1947	1946	1945	1944
	—(000's Omitted)—						
All corporate	$4,266,005	$5,959,260	$6,959,046	$6,[illegible]6,053	$6,756,582	$5,901,744	$3,141,847
New money	2,713,702	4,606,326	5,929,280	4,590,540	3,278,828	1,079,844	656,967
Percent of total	63.6	77.29	85.20	79.99	48.53	18.30	20.91
Plant & equipment	2,078,236	3,724,165	4,220,880	3,408,523	2,114,682	637,803	251,757
Working capital	635,463	882,160	1,708,400	1,182,017	1,164,146	442,042	405,210
Retirement	1,321,974	1,038,099	795,722	1,707,931	3,246,302	4,688,823	2,438,063
Percent of total	31.00	17.41	11.43	26.42	48.05	79.45	77.60
Funded debt	859,456	360,424	239,961	1,155,191	2,391,919	4,116,897	2,037,505
Other debt	380,663	637,133	488,278	356,304	378,786	134,009	49,071
Preferred stock	81,855	40,542	67,484	196,436	475,597	437,917	351,486
Other purposes	230,329	314,835	234,044	137,582	231,452	133,076	46,818
Percent of total	5.40	5.28	3.36	2.59	3.42	2.25	1.49

Why Government Bond Prices Declined

IBA Governmental Securities Committee, headed by George B. Kneass, notes heavy sale by both Federal Reserve and investment institutions of long-term issues, resulting in decline in quotations near to par value. Notes with approval rise in Treasury rates for short-term obligations, together with policy of refunding one-year issues into five-year maturities. Advocates new non-bank long-term Treasury issue and a revamped Series "E" Bonds.

The Governmental Securities Committee of the Investment Bankers Association of America, whose chairman is George B. Kneass, Vice President of the Philadelphia National Bank, presented on Nov. 29, its report to the 39th Annual Convention meeting at Hollywood Florida. The report reviewed developments during 1950 in the Government Bond Market and made suggestions for changes in Treasury financing policies.

George B. Kneass

The full text of the report follows:

During the past twelve months government bond prices reversed the upward trend of the previous year. The Federal Reserve Open Market Committee last December abandoned its six months' policy of inactivity in the long-term market and began to sell Victory and other long-term bonds. Prices of this particular issue declined gradually from 103 10/32 to a bottom of 100 26/32, which was reached around the end of September, and for the past two months has been considered a support point. Holdings of the Federal Reserve System of bonds in the over-five-years class had declined about 50%, or $2½ billion, by the middle of September. Since that time it has purchased about $700 million without any material change in price. This liquidation by the Federal, which for the most part took place in the first six months of the year, was accomplished in the face of continued sales of Government securities (largely bank eligible) by the bigger insurance companies and savings institutions which needed funds to take up other commitments, such as mortgages and term loans to corporations. The smaller insurance companies and pension funds apparently absorbed a substantial amount of securities in the ineligible group as prices declined.

In December 1949, the Treasury altered its practice of one-year refundings by offering to holders of bonds maturing in December, and again in March and April, Treasury Notes with 4 1/3 — and 5-year maturities carrying 1⅜% and 1½% coupons. While it may have been unfortunate that these issues were placed on the yield curve where interest rates were low, it marked a beginning in what was hoped to be a continuing policy of gradually achieving a more evenly balanced debt structure and represented a start at removing the scarcity value of Government obligations in the middle maturity range. However, the aggressive policy of the Federal Reserve in keeping the money market tight caused both issues to sell at discounts and this development may have had an influence in the decision of the Treasury to announce early in May its intent to refund the $11 billion certificates of indebtedness due in June and July into 13-month 1¼% notes. This action strengthened the prices for bank eligible issues, but ineligible bonds, such as the Victory 2½s, after a brief rise continued their orderly decline.

Post-Korea Credit Controls

Our participation as a member of the United Nations in the Korean war brought about a dramatic change in the economy. This was evidenced by heavy consumer buying in July and August and an earlier than seasonal rise in loans to business by the commercial banks. As inflationary influences increased, the Federal Reserve Board in August took the first of three steps in restraint of this trend. The rediscount rate for Member Banks was raised from 1½% to 1¾%, causing an immediate rise in the bill rate by ⅛% to the 1.30% area, with other short and medium term securities experiencing appropriate price adjustments. Simultaneously, the Treasury Department, due possibly to uncertainties abroad, announced the offering of 13-month 1¼% notes to refund nearly $14 billion bonds and certificates maturing in September and October. As a result of this conflict in policy, the Open Market Committee felt it advisable to purchase a large portion of these maturing obligations selling other holdings at the new yield curve in order to prevent too heavy cash redemptions, which would have seriously drained Treasury balances. The Federal Reserve System therefore became owners of some 10 billions of new notes.

The reinstitution of Regulataion W with more severe restrictions and the issuance of Regulation X were further measures of the Federal Reserve Board to control expansion of consumers' loans and real estate financing. It is too early as yet to appraise either the degree of their effect on the volume of credit or their impact on the Government securities market. Time alone will give the answer as to the effectiveness of these actions.

Treasury Debt Problem

It was under these conditions that your Committee two weeks ago undertook consideration of the fiscal problems confronting the Treasury. The most immediate seemed to be that of refunding the $2.6 billion 1½% bonds and the $5.6 billion 1⅛% certificates of indebtedness maturing on December 15 and January 1. While it was our judgment that a 1½% obligation due January 1, 1952 would provide a satisfactory operation in the sense of being accepted by the holders of maturing items, the Committee expressed a strong preference for a refunding of one or both of the maturities in question with obligations due at least beyond the middle of 1952. This was predicated upon two primary considerations:

(1) From the standpoint of the Treasury, we were impressed by fact that approximately $60 billion of Treasury paper fell due before the end of 1951. If this were all refunded into 1952 maturities, it would be added to $17 billion of bonds bearing 2% to 2½% interest callable in that year. Thus, the Treasury could be faced with a refunding problem of $77 billion exclusive of Series "E", "F" and "G" maturities and exclusive of any deficit financing which might be necessary. It was our belief that maturities of this magnitude representing more than one-third of the national debt exclusive of special Trust Fund issues might prove to be a serious problem to the Treasury Department.

(2) Based on the present interest curve, it seemed to us that the 5-year area represented the cheapest borrowing category for the Treasury, particularly since only an additional ¼ of 1% was involved beyond the cost of one-year borrowing. This would achieve a better spacing of the debt and tend to remove some of the price artificiality of paper in this area. Late figures reveal that about one-half of the maturing issues in question are held by non-bank investors. While it is true that certain of the latter may prefer obligations of shorter term, it would appear that these could be made available from the portfolio of the Federal Reserve Banks, which are in a position to provide the market with ample short term paper. In addition it might permit the latter institutions to acquire sufficient holdings of the new issue to provide some greater ability to employ market controls. It should be emphasized that after taxes the net cost of a small increase in rates is negligible.

The banking system, limited as it has been by the scarcity of intermediate and longer term investments may under these circumstances be too liquid.

Excessive Bank Liquidity

As an example of the larger institutions, figures available from reports on New York City banks show that during the period June 14 to November 8, the total bills, certificates and bonds due within twelve months owned rose from 22.5% to 29.6% of their Government holdings and this despite a very substantial increase in the loan portfolios of these institutions. In the face of inflationary pressures in the over-all economy, this banking system liquidity may make it difficult to curb bank lending activity because of the relatively small penalty involved in the sale of short-term Governments for the purpose of unwarranted bank credit extension.

While non-bank, long-term investors as a whole do not now have substantial funds available for purchases of Government securities, we believe it probable that this situation may be reversed sometime in 1951, particularly due to current and possibly further restrictions such as Regulation X on mortgage lending. Because of the desirability of capturing such non-bank funds, we suggested that the Treasury Department make available to these investors an appropriate long-term marketable non-eligible issue as soon as there is evidence of reasonable accumulation of buying power. We suggest that such an offering be made irrespective of whether the Treasury Department is in immediate need of any new money at the particular time when non-bank funds are available for purchase. We stressed our recommendations of a marketable issue as we believed that the Treasury as a seller would be well advised to recognize the marked preference of non-bank institutional investors for this type of offering. We believe it is also better fiscal policy to avoid the issuance of redeemable debt to these buyers.

We recognized that one of the major problems confronting the Treasury Department was the possible redesign of the Series "E" bond in a manner to capture as much as possible not only of the new funds of small savers but

Continued on page 24

Cites Importance of Public Relations

Holgar J. Johnson, President, Institute of Life Insurance, tells IBA Convention, organized public relations efforts have become a necessary part of business. Describes his own organization's activities.

Addressing the 39th Annual Convention of the Investment Bankers Association of America, in Hollywood, Fla., on Nov. 28, Holgar J. Johnson, President of the Institute of Life Insurance, told the members that organized public relations efforts have become a necessary part of all business activity.

Holgar J. Johnson

"There are three basic reasons underlying the need and importance of public relations work," Mr. Johnson said. "So important are they that no business can expect to endure long with public goodwill and consequent success if it does not carry out the public relations function promptly, effectively and continuously.

"The first of these reasons is the gap created between business management and its customers under modern conditions. Operations used to be purely local, but now business finds it necessary to convey its full story to its customers over a very broad area. It is more difficult for the public to know the business intimately and appraise its character on a neighborhood plane.

"Second, economic and social conditions have developed in the public a more inquiring mind concerning business. Education and inter-relationships of common interests have made the public conscious of what business means to the community. People generally want to know more about business, what it is doing, how it serves the community, its overall character and performance.

"Third, more than ever before it is public opinion that, in the last analysis, decides how a business must operate if it is to continue and prosper."

Discussing the work of the Institute of Life Insurance, established by the life insurance companies 12 years ago as their public relations instrument, Mr. Johnson said it has a dual objective: To translate the life insurance business to the public in such a way that the public will have a greater understanding of and therefore a greater appreciation of life insurance and to translate public attitudes to the life insurance business, so that the business can adjust itself to public attitude before it becomes public demand.

"Any public relations program has to be carefully planned and developed," Mr. Johnson continued. "It has to be related not only to the specific business involved, but also to outside conditions in the whole realm of economics, politics and social relationships. What is more, the program must be kept flexible and meet the changes in surrounding conditions that are constantly developing.

"One of the important considerations in any public relations program is recognition of the many publics interested. There is not just one mass public of 150,000,000 Americans; rather there are innumerable public differing by age, sex, education, occupation, economic status, location and host of other varying characteristics. The information carried to them and the translation of their viewpoints back to the business must take into consideration these segment viewpoints and opinions and interests.

"Then, too, the public relations program must be an integrated activity up and down the line of personnel, from top to bottom. No one man or one department can carry the load. Everyone in the business is making public relations and they will be good or bad, according to how they fit in with the over-all objectives. Performance is the real cue to good public relations and no one can merely talk his way into the good graces of the public. As frequently summed up, public relations is 90% conducting your business in the public interest and 10% telling about it. Both are necessary."

Describing the Institute's implementation of the basic public relations philosophy, Mr. Johnson said that it had endeavored to develop a national and central source of information on life insurance, developing a large statistical division to gather and analyze the facts and figures of the business and a press division to serve the editors and writers of the country whenever desired. The Institute found a keen demand for life insurance information on the part of the nation's press.

To meet the interests of the many publics, the Institute has diversified its activities, giving special attention to women's needs, educational institutions and many other special fields. Practically all media of communication have been used in carrying the story of life insurance to the public, newspapers, magazines, radio, motion pictures and the speaking platform.

Continued from page 23

Why Government Bond Prices Declined

also of the funds which would come into the hands of those individuals as a result of heavy maturities of these bonds in the relatively near future. We have been aware of loose talk as to the effect upon holders of savings bonds of further declines in purchasing power of the dollar. It was needless to emphasize here that such developments injured all owners of bank deposits, insurance policies and fixed investments. This Committee has been conducting a study of the savings bond setup and has presented its suggestions to the Treasury.

It was apparent to the Committee that the yield on Treasury Savings Notes, Series D, now 1.08% for twelve months and 1.40% for a three-year holding, was not attractive to buyers under the present interest rate pattern, and this was indicated by the trend of sales. This type of security demonstrated its popularity with the non-bank investor when the interest rate corresponded reasonably to that of marketable paper. We believed, therefore, that the Treasury officials should give consideration to the replacement of the "D" Notes with a new issue which would revive the sales volume of this security and provide an attractive investment for the corporate buyer. It was also suggested that interest to the 15th of the month be paid holders tendering notes in payment of income taxes.

Deficit Financing Ahead

The prospect of a great increase in Governmental expenditures appears certain. The increase in defense appropriations of over $30 billion last July will not mean cash outlays of that amount in this fiscal year of the Treasury. Nevertheless it may be assumed that the budgeted expenditures for 1951-52 will total more than we can expect to receive through income taxes and other sources. We can therefore expect deficit financing sometime next year.

In conclusion your Committee continues to be strongly of the opinion that the future financing operations of the Treasury should continue to be directed primarily toward an anti-inflationary program that will be in harmony with higher taxes, direct controls and other powers that may be delegated to aid in stabilizing the economy. It is therefore of prime importance that the fiscal policies to be adopted should create a stable atmosphere under which the authorities will be able to market the required amount of bonds to the non-bank investor, slow the redemption of savings bonds, and establish a rate policy which will allow reasonable flexibility particularly on the short end. They should resort to the banking system for new money only when other means are not reasonably available.

We are confident that all this may be accomplished by the full and understanding cooperation, which is essential, between the Treasury Department and the Federal Reserve Board which are the authorities upon whom this responsibility rests.

Respectfully submitted,

Government Securities Committee

George B. Kneass, *Chairman;* Robert B. Blyth; Oscar L. Buhr; Aims C. Coney; Robert H. Craft; Stewart A. Dunn; Robert R. Gilbert, Jr.; Sheldon R. Green; Henry M. Hart; Hardin H. Hawes; Russell A. Kent; Francis M. Knight; Winston L. Molander; Robert H. Moulton; Emil J. Pattberg, Jr.; Delmont K. Pfeffer; Malcolm S. Prosser; L. Sumner Pruyne; Herbert N. Repp; Horace Schermerhorn; Rudolph Smutny; J. W. Speas.

Canada's Progress and Prosperity

Canadian Securities Committee of IBA, headed by F. Douglas Chapman, reviews Dominion's economic and financial developments of last year. Finds budgetary position sound, with securities markets following American pattern. Upholds unpegging of Canadian dollar, and looks for end of restrictions on U. S. imports. Sees great possibilities in Canadian oil developments.

On Nov. 30, F. Douglas Chapman of A. E. Ames & Co., Ltd., of Toronto, released, through Wm. T. K. Collier of Collier, Norris & Quinlan, of Montreal, to the 39th Annual Convention of the Investment Bankers Association of America, meeting at Hollywood, Fla., the report of the Canadian Securities Committee, of which Mr. Chapman is Chairman. The report contained a comprehensive review of Canadian economic and financial developments, particularly as they affected investment and future possibilities for American capital in Canada's projects.

The text of the report follows:

We Canadians find it a little difficult to realize that we are foreigners in the United States. Not only because we speak the same language and have many contacts with friends in the United States, but mainly because of the generous reception that we receive on every side from the people of the United States.

W. T. K. Collier

In giving a report on behalf of the Canadian Securities Committee for the year, with the background so ably outlined by the Chairman of the Committee last year, I think you will probably want to know how things are going in Canada just now.

Production

Over a period of years Canada has been changing from a nation which was primarily engaged in the production of foodstuffs and raw materials to a nation in which manufacturing is relatively more important. Since the beginning of World War II, industrialization has been proceeding at probably a more rapid rate in Canada than in any other country, and in that period, our industrial population has doubled and now exceeds the number engaged in agriculture. The effect of the wartime stimulus to manufacturing is quite apparent in the postwar figures. In 1938 total primary production was estimated at $1,384,000,000, and secondary production at $1,714,000,000, with a grand total of $2,859,000,000 after making proper allowances for unavoidable duplication. In 1949 total primary production was estimated at $3,920,000,000 and secondary production at $6,100,000,000 with a total of $9,207,000,000. Figures for 1950 will not be available for some little time, but the index volume on total industrial production for the first six months of the year, seasonally adjusted, shows a startling increase of from 184.3 at the end of 1949 to 205.9 for the month of June, 1950 (1935 to 1939 equals par).

Trade

This trend makes it desirable to look at our foreign trade, which is of the greatest significance to Canada. With less than 1% of the world's population, it is estimated that we ranked third in total merchandise trade and in exports and in imports in 1949. The present high level of Canadian exports has been made possible by the adjustment and expansion of Canadian production to meet the greater requirements of the United States markets and the urgent European demands for food and reconstruction materials, following World War II.

Since 1939 the dollar value of Canadian merchandise exports has increased more than threefold, and while this reflects a considerably enhanced price base, it is more particularly the result of a substantial increase in physical volume.

Overseas Trade

The principal export markets of Canada, have, historically, been the United States and the United Kingdom. It is somewhat remarkable, however, that in spite of the tremendous expansion of the Canadian economy, the combined percentage of exports to these two countries has hardly changed. In 1938 the United States and the United Kingdom together absorbed 73.1% of Canadian exports. In 1949 the figure was 73.9%.

There has, however, been an important change in the direction of our exports during the last few years, and particularly in the past 12 months. This is due in large measure to the continuing fact of exchange shortage and rigid economic control in soft currency areas, particularly in the United Kingdom, and the running out of credit arrangements which were granted by Canada in liberal measure immediately after the close of the war. A few statistics will illustrate this fact. In 1939, in millions of dollars, exports from Canada to the United States amounted to 390 and to the United Kingdom 329. In 1947, however, the United States took from Canada exports to a value of 1,057, compared with 754—the highest postwar volume—to the United Kingdom, while in the first nine months of 1950 exports to the United States were made at the annual rate of 1,927, against 458 to the United Kingdom. This trend has been particularly emphatic this year. For the first nine months, exports to the United States are stated to have been made at an annual rate more than 26% higher than that of 1949, while those to the United Kingdom for the same period were made at an annual rate which was some 35% less than the previous year.

Canadian exports to the United States in September reached an all-time peak of $192,790,000 compared with $167,100,000 in August and $113,701,000 in September, 1949. The cumulative total for the first nine months of the year climbed to $1,433,083,000 against $1,024,304,000 a year earlier.

National Income

In the year 1949, it is estimated that the National Income at factor cost was $12,917,000,000 as compared to $4,289,000,000 in 1939. While no figures are available for 1950, it has been estimated that, based on production, trade and other indices, this year will show a further increase over 1949. During the war when we were planning our postwar economy a figure of $7 to $8 billion was used as a possible goal for postwar national income, this is a far cry from the 1949 figure of nearly $13 billion.

Population

Canada's population, according to the latest official estimates, is given at just under 14,000,000 as compared with 11,267,000 in 1939. Part of this increase is accounted for by the addition of 347,000 persons when Newfoundland entered confederation in 1949. Immigration during the years 1946-1949 has been estimated at about 356,500. Many Canadians are hopeful that in addition to the refugees we have admitted that we can look forward to legislation that will allow an influx of very desirable immigrants particularly from the British Isles as well as Northern Europe.

Budgetary Position

Canadians have been extremely fortunate in the postwar years in the results of government financing. During World War II it was the government's policy to provide as much of the cost as was possible on a "pay-as-you-go" basis, and it has been estimated that the various measures adopted at that time with this objective enabled the government to finance about 50% of war expenditures out of current income.

There was an expansion in Federal and Provincial debt from Dec. 31, 1938, to Dec. 31, 1946, of about $13 billion, but during the same period Municipal obligations declined by about $591 million, from $1,453 to $862, making an estimated overall debt at the latter date of about $20 billion. In March, 1950, in presenting his budget for the coming year, the Finance Minister was able to report the fourth consecutive budgetary surplus, each of which ran into substantial figures. In September of this year, when, as a result of the changed international outlook, it became necessary for an interim budget to be passed and new taxation introduced, the Finance Minister announced a surplus of $292,700,000 in the government's operations in the five months ending Aug. 31, as against $294,600,000 for the same period in the preceding fiscal year. The interim budget turned out to be an unexpectedly painless operation. Personal income tax was left unchanged, corporation income taxes were increased by 5% and there were moderate increases in excise taxes on certain consumer goods.

The interim budget disclosed the government's plan for fitting additional substantial defense expenditures into an economy already in a condition of virtually full employment, and for doing so without aggravating inflationary pressures. Moreover, while the proposals appeared to offer the first instalment of the program at low initial cost, the taxpayer was warned, by implication, that the second instalment might well be in higher figures.

Revised estimates of revenue and expenditure for the current fiscal year, as set forth in the interim budget, reveal that anticipated receipts from the new taxation measures account for only $59 million out of the total increase of $239 million in revenue. The remaining $180 million represents additional yield from taxes at pre-existing rates. For a full fiscal year, the yield from the new taxes is estimated at about $190 million. The only increase in expenditure is in respect of defense. This amounts to $244 million, not all of which is expected to be made during the present fiscal period, and which would seem only to be a warning of things to come.

While the current fiscal year seems to be quite a happy situation in which, in spite of the increase of defense expenditures,

Continued on page 40

Private Utilities vs. Public Power

Report of the Public Service Securities Committee of the IBA, under chairmanship of Edgar J. Loftus, stresses growing expansion of government power projects, which is held as unwarranted. Sees no ground for excess profits taxes on utilities, and calls competitive bidding for utilities' stocks unsound. Reveals slight change in character of utility financing.

In its report to the Association's 39th Annual Convention at Hollywood, Fla., the Public Service Securities Committee of the Investment Bankers Association called attention to the threat of nationalization of the electric power industry embodied in proposals to greatly expand the number of river valley authorities. Noting the huge expansion program initiaated by the privately-owned utilities prior to the Korean war, the report emphasized that the industry is fully capable of meeting any foreseeable demand arising from the defense program provided no government controls are imposed on the manufacture of generating equipment. The Committee again scored competitive bidding for utility equities as unsound, adding that this method of financing does not always serve the public interest.


Edgar J. Loftus

Text of the Committee's report, the Chairman of which is Edgar J. Loftus, of R. S. Dickson & Co., New York City, follows:

In this Committee's report at the Spring Meeting, attention of this Association was called to the threat of nationalization of the electric power industry. Various proposals in Congress would increase river valley authorities, which would blanket the nation. President Truman in a press conference after his State of the Union Message to Congress early this year, expressed the hope of seeing a nation-wide network of public power to provide the country with an inexhaustible supply of electric energy. The report suggested that if Congress sincerely wished to effect economies in government, a good start could be made by reducing expenditures for public power projects that are not necessary and that ultimately would enter into competition with private companies.

Before the Korean war started, the privately owned utility companies were well along on a program of postwar II expansion, which would add about 20 million kilowatts of generating capacity from the end of 1946 to the beginning of 1950, equal to approximately 50% of the industry's total generating capacity in 1940. The present emergency has stepped up the program of additions. President Truman in setting up machinery for the administration of emergency controls as authorized by the Defense Production Act, has divided utility supervision between the Departments of Interior and Commerce. There was an effort on the part of certain Congressmen to place all control powers and authority in the Department of Commerce. This obviously was an attempt to keep authority away from the Secretary of the Interior, whose views on public power are well known, and who it is felt might favor public power at the expense of the privately owned companies. As finally adopted the Defense Production Act places control over telephone, telegraph and transit companies under the Department of Commerce, while the Interior will rule over electric power, gas and related oil production and distribution, and solid fuels.

No Power Shortage

The Secretary of the Interior has recently appointed a Defense Advisory Council, whose function it is to advise him on matters concerning the Industry during the present emergency. The Council consists of twenty-one executives from private utilities, two from federal power projects, five from non-Federal power projects, and one representing the National Rural Electric Cooperatives Association and one from National Association of Railroad and Utility Commissioners. At the first meeting of the Council held October 19, 1950, Secretary Chapman advised the Council of the responsibility of making sure that enough electric power is made available when and where needed to meet the expanding requirements of the National Defense Program and at the same time to take care of the requirements of all segments of the civilian economy. The Secretary assured the Council that he wanted their support, and promised that the defense powers intrusted to him would not be used as a means of advancing public interests at the expense of private power developments. At the same meeting, Mr. E. L. Marlett, Acting Deputy Administrator for Electric Power, and Assistant Administration of the Bonneville Power Administration, spoke of power shortages in certain sections of the country, and of the margins of reserve power which three months ago appeared to be comfortable in most regions of the country, are now beginning to disappear. The private power people are in sharp disagreement with any claims of a power shortage, and contend that certain government officials have been using the present emergency to talk about "power shortages", in order to further develop "public power".

A report of the Edison Electric Institute released Wednesday, October 25, 1950, by its President, L. V. Sutton, established definitely that there is plenty of power to meet the needs of the country, and that the reserve margin outlook has been changed but little by the present partial war emergency. The report shows that the reserve margin will be approximately 12% in 1950. The program for the years ahead is dependent on there being no government controls imposed on the manufacture of generating equipment for the utilities. The survey has forecast load growth for the next three years under conditions as they now exist. If the growth of generating facilities is allowed to proceed without interruption, the reserve margin of power will amount to about 20% in 1953. It is further stated that even if the country were faced with a five year period of intensive war effort, the electric industry is capable of generating twice the amount of power produced during the five years from 1941 through 1945, and that while the reserves of power would be cut, there would still be an ample supply. The electric power industry was able to satisfactorily meet power demands in World War II. As a result of a foresighted postwar expansion program, the industry is able to meet any foreseeable demand, due to the present emergency.

Excess Profits Tax

In connection with the electric power industry's vast expansion program, so necessary to serve defense needs, it is hoped that in an excess profits tax, consideration will be given to the necessity of raising large funds from the investing public. The efficiency and financial stability of the industry must be maintained if the defense effort is not to be impaired. The expansion program will continue to absorb large sums of money. The industry must not become top-heavy with debt, and larger amounts of equity capital will have to be secured. It is evident from past experience that an excess profits tax must permit sufficient inducement to investors, if utilities are to secure the proper amounts and kind of new capital for their expansion. It is also hoped that in considering an excess profits tax, Congress will give considerable weight to the fact that the utility industry already is well regulated in most of the states both as to the rate of return on investment, and as to the prices which may be charged for their products or services. Therefore, it follows that the type of war profits intended to be recaptured by excess profits tax legislation will not generally be present in the case of public utility companies.

Competitive Bidding

The Committee again wishes to express the opinion that competitive bidding for utility equities is unsound. It has also been demonstrated that the alternative—so-called "shopping around" is equally as unsatisfactory. Substantial amounts of capital can be raised through the sale of preferred and common stocks, at an equitable price to all concerned, (issuer, banker and the investing public), provided the raising of such capital is preceded by a well-planned program of educating security dealers and their salesmen. In the public interest, it is necessary to arrive at an equitable price, and such is not always possible under competitive bidding or shopping-around.

Respectfully submitted,

Public Service Securities Committee

Edgar J. Loftus, *Chairman;* Edward F. Beatty; F. Edward Bosson; Carl H. Doerge; William N. Edwards; W. Sydnor Gilbreath, Jr.; Charles C. Glavin; Gail Golliday; Willard A. Lynch; Robert Mason; Reginald W. Pressprich, Jr.; Joseph E. Refsnes; Thomas J. Reis; David L. Skinner; Theodore H. Wegener; Lawrence B. Woodard.

PUBLIC UTILITY FINANCING

	—Jan. 1 to Nov. 20, 1950—		—Jan. 1 to Nov. 30, 1949—	
	No. Issues	Par Value	No. Issues	Par Value
Debt Securities—				
Sold Competitively	65	$1,436,195,000	72	$1,025,077,000
Negotiated	6	68,800,000	5	31,146,400
Sold privately (*)	78	616,645,000	107	515,990,000
Offered stockholders († ‡)	--	----------	1	394,372,900
	149	$2,121,640,000	185	$1,936,586,300
Preferred Stocks—				
Sold competitively	14	$77,843,500	15	$74,500,000
Negotiated	36	261,993,864	25	142,744,000
Sold privately (*)	14	37,080,000	4	9,000,000
	64	$376,917,364	44	$226,244,000
Common Stocks—		(§)		(§)
Sold competitively	12	$83,444,729	15	$113,192,800
Negotiated	44	292,980,570	43	223,443,900
Dealer-Manager	--	----------	7	56,820,700
Offered stockholders (‡)	18	157,067,833	8	56,161,900
	74	$533,493,132	73	$449,619,300
Totals	287	$3,032,050,496	302	$2,642,449,600

Percentages— (¶)	1950	1949
Debt securities	70.0%	69.1%
Preferred stocks	12.4	10.3
Common stocks	17.6	20.6

NOTES:

(*) On basis of published information, which may be incomplete.
(†) Offering of American Telephone & Telegraph Co. conv. 3⅛ debs., 1959.
(‡) Offered to stockholders without underwriting.
(§) Figures are approximate, based on respective offering prices.
(¶) Excluding American Telephone & Telegraph Co. financing.

Petroleum and Natural Gas Industries Sound

The Oil and Natural Gas Securities Committee of the IBA, whose Chairman is Winfield H. Perdun, in report say these fuel industries still afford money-making opportunities. Foresees little likelihood, however, for stock financing on large scale, despite expanding investment and the advantages which certain types of their securities possess. Holds nationalization of fuel industries a serious long-term threat.

In a comprehensive report to the 39th Annual Convention of the Investment Bankers Association, meeting at Hollywood, Fla., the Oil and Natural Gas Securities Committee, whose chairman is Winfield H. Perdun of Smith, Barney & Co., New York, reviewed recent developments in both the petroleum and natural gas industries, of peculiar interest to investors and underwriters as well as to the public.

Winfield H. Perdun

The text of the report follows:

A convenient and reliable bench mark widely used in portraying valuable composite financial information concerning the petroleum industry is the "Financial Analysis of Thirty Oil Companies" published each year by the Chase National Bank. This study shows that at the 1949 year end the industry had a total of 14 billion 422 million dollars of borrowed and invested capital. The make-up of this capital investment is highly important to us as investment bankers, dealers, and brokers. Borrowings totaled 2 billion 604 million dollars, or only 18.0% of the over-all capital employed; minority interests were 3.2%, preferred stock only 1.2% and common stock and surplus totaled 11 billion 15 million dollars or 77.6% of the aggregate. Of further interest to us is the calculation that of the 2 billion 604 million dollars of borrowings 1 billion 736 million dollars was represented by loans from bank and insurance companies, this source of funds comprising 66.6% of the total borrowings.

What do these figures mean to us? Among other things they tell us that:

(a) The petroleum industry is not only a very large industry but is likewise a most conservatively capitalized one. Therefore, it should and does occupy a highly important position in the investment portfolios of our customers.

(b) Since the largest four to five year capital expenditure program in the history of the industry occurred in the years ending with 1949 and since the capital structure of the industry emerged in its conservative state, that the industry has both a satisfactory cash flow and good financial management. Therefore, we as bankers can view its offerings of securities with confidence.

(c) The proportion of borrowings is low related to capital employed and most likely will remain low because of (1) strong treasury positions and (2) financial policy. Accordingly, we may expect to see the industry obtain the bulk of any required new money by either retained earnings or through equity financing. The source of outstanding borrowed monies reveals that we as bankers have been largely out of the picture. There is ample room in the capital structure of the industry for more debt, and this means could be employed as a source of funds. Again, it may be advantageous for the industry to borrow because of tax features, but, historically it would appear that the public through us has not been as satisfactory a source of funds as the insurance companies and banks. One disadvantage to the borrower arising out of the private placement of debt, and it is a point of which we should be aware and one which we should use to our advantage, is the inability of the borrower to retire debt at discount levels in the event of major interest rate changes.

(d) Preferred stock comprises a very unimportant segment of the oil industry's capital structure, and of the 30 companies covered today only 5 have such issues outstanding. Requiring a higher cost of money than public or private debt placement and offering none of the tax advantages of debt and viewed in the light of the longer term past trend of industry capital structure, this type of issue has for the time being lost its appeal to the issuer.

The prospects for common equity financing are not too promising. Certain companies would appear to need capital of this kind but in the aggregate, their needs are not large. A deterring factor in some cases is the relationship of present stock prices to book values, which latter are above market prices. To the extent that a war or defense program may require plant investment of an emergency nature, the industry calls them "shot-gun" expenditures and does not regard them as wise spending of shareholders money. The machinery provided in World War II for 60 months amortization still exists and offers tax advantages.

It is not surprising that in view of (a) the industry's importance to our national well-being, (b) its capital structures, (c) broad securities markets, (d) tax advantages, of which more later, (e) earnings and dividend record, and (f) its recognized advantages in an inflationary economy, that oil equities are a large part of our day-to-day business as brokers. There are some other points of interest to those having an analytical turn of mind to the effect that the investor can purchase almost any kind of oil stock he wishes. For example, (1) straight crude oil producers such as Amerada and others, (2) stock of a marketer such as S. O. Kentucky, (3) companies with large foreign interests such as S. O. New Jersey, (4) companies almost entirely domestic such as Continental Oil, (5) companies operating primarily on the West coast such as Union Oil, (6) companies primarily in the Mid Continent area such as S. O. Indiana and Phillips, or (7) primarily East Coast companies such as Atlantic Refining.

We are all aware of the tax advantages which benefit oil companies in varying degrees. Looking briefly at their position with respect to excess profits taxes, it would appear that (a) industry invested capital today is about double that of a decade ago, (b) average 1946-49 earnings were treble those of 1936-39, and (c) with a growth of nearly 50% in volume of crude oil output since 1940-41 and with a crude oil price nearly 220% of that of 1940-41 the value of statutory depletion is more than three times what it was during the last previous term of excess profits taxation.

Our opportunities as underwriters of petroleum industry securities for the period immediately ahead are not too bright. As dealers, the opportunities are somewhat limited by the fact that the securities of most recognized oil companies are listed on one or more exchanges. Large holdings of oil shares are important segments, in many cases as much as 20%, of the equity portfolios of the mutual investment company shares which many of us merchandise.

A report such as this must of necessity devote itself in some degree to a discussion of such factors as (a) earnings and economic trends, (b) legislation, and (c) security holders attitudes. With respect to economic trends we must in the case of petroleum briefly touch on foreign developments.

A reasonable guess as to the 1950 level of oil industry earnings can now be made with considerable assurance. For the 30 oil companies already referred to, it would appear that 1950 net income would exceed 1 billion 600 million dollars, which compares with the 1948 peak of 1 billion 929 million dollars and the 1949 total of 1 billion 408 million dollars.

Continuance into the second quarter of 1950 of certain trends which began in mid-1948 generally resulted in first half 1950 earings making an unfavorable comparison with 1949. Second half results appear to be the best since the first half of 1948.

The most important factor in maintaining equilibrium in the petroleum industry is the Railroad Commission of Texas. By sharply reducing production allowables beginning in late 1948 and permitting no material increase until April, 1950, supply was ultimately brought into balance with, and even went below, demand and aside from minor local adjustments, no change occurred in posted crude oil prices despite sharp declines in refiners profits.

Speaking from an economic viewpoint, it would currently appear that there has been in the last five months some advance buying of petroleum products (ex motor fuel) at the secondary level. Absence of this in the last two months has caused some build-up of primary inventories which if carried on for a further period would contain some of the elements which produced the 1948 downturn. The recency of the action of the Texas RR. Commission over 24 months would appear to assure continued watchfulness on their part and thereby action designed to regulate production from an economic viewpoint. Moreover, the industry is aware of the present situation and unlikely to aggravate stock problems.

While statistically the present would not appear an opportune time for an upward movement in crude oil prices, it should be noted that the last advance occurred in December, 1947, a date now almost three years ago. During the interval prices of many other commodities have recorded sizeable increases.

The industry has ample shut-in crude oil production which could be produced without harm to the wells. In August, the Hon. Roy J. Turner, Chairman of the Interstate Oil Compact Commission and Governor of Oklahoma, advised President Truman that such production totaled 1,140,000 B/D above the then production rate of 5,400,000 B/D. An excess of 750,000 B/D above September producing rates of 5,800,000 B/D

Continued on page 62

Railroad Securities and the Investor

IBA Committee cites subsidized competition, high operating costs and obsolete regulatory policy as handicaps to new investment, but contends railroad securities merit greater investor consideration than public quotations imply.

The report of the Railroad Securities Committee of the Investment Bankers Association of America, whose Chairman is Charles L. Bergmann, of R. W. Pressprich & Co. of New York, was submitted to the 39th Annual Convention of the organization, meeting at Hollywood, Fla., on Nov. 30. In addition to commenting on the continuing unfavorable attitude of investors toward rail securities, which is deemed unwarranted, the Committee again called attention to the adverse effects of subsidized competition against the railroads and the slow, obsolete regulatory policy.

The text of the report follows:

Since the outbreak of the Korean conflict there has been a marked and warranted increase in speculative interest in railroad securities. Earnings for the full year 1950 will materially exceed those for 1949, a year in which operations were subnormal due to a succession of strikes in the coal, steel and automobile industries as well as on the railroads themselves. In addition, in view of our projected defense program, the outlook for the next several years also appears favorable from a traffic standpoint. For the conservative investor the near-term favorable outlook, as well as the more fundamental favorable aspects of the railroad situation, apparently continue to be overshadowed by other considerations.

Other railroad securities committees prior to this have drawn your attention to the improved earnings and financial position of the carriers; the great increase in efficiency of operations which has been achieved through judicious expenditures; and the reduction in indebtedness which has been accomplished during the last decade. Prior reports have also cited to you the unfavorable factors of subsidized competition and the ceiling such competition tends to put on railroad rates; the high break-even point and relatively inflexible costs of railroad operation; and a regulatory policy with respect to rates and fares which is slow-moving and not geared to present-day conditions. All of these stem from an unsound national transportation policy greatly in need of revision.

The effect of investor prejudice against railroad securities is evidenced in part by the relatively low price at which many outstanding securities sell in the open market. Further, there has been only limited opportunity for the industry to finance by public sale of securities a capital expenditures program which has averaged one billion dollars annually for the last several years.

Where financing has been undertaken it has largely followed the form of the issuance of equipment trust certificates which, because of their unusual characteristics can be sold at relatively low interest cost. However, the use of this financing medium is subject to definite limitations. There has been a minor amount of bond financing for new money purposes but, except for one issue of convertible bonds, equity financing has been practically impossible. The greater part of the necessary capital funds has been derived from depreciation allowances or from retained earnings. As a consequence, the pace of railroad modernization programs is largely geared to prospective earnings rather than the need for the improvements.

A fair-minded appraisal of fundamentals will support the argument that many railroad securities are more deserving of investor considerations than our public market quotations would imply. Investment bankers can render a real service by first educating themselves to this fact and then urging that viewpoint on their clientele. We can also further the cause of the railroads by efforts to assist in the achievement of a sound national transportation policy. The need for such a policy can be brought to the attention of the many users of transportation that we number among our capital-seeking clients. The attention of our security-buying groups can also be directed to this problem by educating them as to its existence and the importance to them of effecting a solution. The combined efforts of many will produce a result which, in the long run, will be beneficial to all.

There are three obvious reasons (and we may have overlooked some others) why we should be concerned with the railroad problem. First, we have a continuing responsibility to those to whom we have sold railroad securities in the past to do what we can to preserve the soundness of those securities. Second, we have a selfish interest in the railroads as potential seekers of new capital. Third, we, together with many other groups in this country, are engaged in a fight to preserve free enterprise.

Our railroad transportation system is one of the keystones of our economy and one of the bulwarks of free enterprise. It is one of the first likely to be attacked in further efforts to encroach upon free enterprise if it fails to serve our needs. Thus, we have a responsibility to exert every effort to preserve our railroad system for private ownership.

As we have already indicated, railroad earnings for 1950 will be substantial. Net income may reach a new peacetime high of $725 million as compared with $698 million for 1948, but it should be noted that there is included in the higher figure about $150 million of retroactive mail pay.

The outlook is for a high level of traffic volume for the next several years, but the profitability of operations will be influenced by the extent to which pending wage demands are satisfied and whether they are offset in whole or in part by compensating rate increases or by further savings through increased efficiency.

The high level of earnings will provide railroad managements with additional funds with which to continue and accelerate modernization programs. The improvement in operating efficiency made possible by such expenditures has been, and should continue to be, a major objective of management. Also, those railroads whose debt structures are still burdensome should seek to effect an improvement in their capitalization by applying a fair proportion of earnings of debt retirement.

During the year now ending the railroads will have raised approximately $275 million of new money through the sale of equipment trust certificates compared with $445 million during 1949. Other bond financing (including two issues scheduled for December) will total nearly $274 million. Of this, $141 million refunded outstanding obligations and $133 million was for new money. Included in this total, and an achievement of note, was the sale by Southern Pacific Co. of $37.7 million of convertible debentures at an interest cost much lower than could have been obtained through a straight debenture issue.

As a result of the increased demand for transportation resulting from our preparedness program there has been a substantial step-up in railroad equipment purchasing with deliveries scheduled for next year. In consequence, the volume of equipment trust financing during 1951 could possibly exceed the $445 million of such financing during 1949.

Since the end of World War II there has been a sharp increase in the volume of railroad equipment trust obligations outstanding, so much so that some analysts have questioned whether the heavy serial maturities might not raise a problem if earnings were to fall off. We do not have accurate statistics available for all roads, but a compilation covering 39 major class I roads shows that in 1951 that group will have to meet over $208 million of serial equipment trust maturities. As an offset to this sum, these same roads were accruing $257.6 million for depreciation of equipment, a non-cash charge to operating expenses. It is evident that the margin between maturities and depreciation is still comfortable, although not as much so as in earlier years. However, it should be noted that within the overall picture the position of individual roads may vary widely.

During the year several railroads formulated and consummated plans for the extension of large short-term maturities or their replacement with longer term issues. The success of these plans was due in large measure to the efforts of investment bankers who assisted in their preparation and security dealers who solicited the assent of the holders of the old securities. It is to be noted, however, that the fee of ¼ of 1% paid to soliciting dealers is not sufficient to cover the expense of soliciting small holders, and it is recommended that where such assents are sought the amount of the fee be increased to a more compensatory amount.

While commenting on financing, mention should be made of a new device commonly known as the "Equitable Plan" which in some instances has supplanted the orthodox type of financing the acquisition of new equipment. Under the "Equitable Plan" an insurance company or similar type of investor, working in conjunction with an equipment manufacturer, purchases the desired equipment from the manufacturer and leases it on a rental basis for a period of years to the railroad company desiring the use of such equipment. Unlike the equipment trust method, the railroad does not acquire ownership of the equipment at the end of the rental period but turns it back to the owner-investor. Railroads that have acquired equipment through this plan have been influenced by what are presumed to be tax advantages and also because they have avoided the necessity of depleting working capital by making the usual down-payment required in connection with the orthodox type of equipment trust financing. No exact figures are available as to the extent to which equipment trust financing has been reduced by resort to this method, but estimates place the figure in the neighborhood of $100 million.

This Committee has taken no position for or against the plan but is watching its progress with interest. Many mortgage bonds have as one of their security features a lien on the obligor's equipment. Obviously, the "Equitable Plan," carried to an extreme, could vitiate this security provision.

Your Committee is pleased to report that it is now represented on the Investor Panel of the Co-operative Project on National Transportation Policy sponsored by the Transportation Association of America. The project seeks to develop a modern transportation policy by agreement among all interested parties. Its conference discussions promote agreement on fundamental principles and serve to compose differences and effect compromises. It is a major effort, the need for which was outlined in the introduction to this report, and we are pleased to be associated with the effort.

Respectfully submitted,

Railroad Securities Committee

Charles L. Bergmann, *Chairman;* George A. Barclay; Howard M. Biscoe, Jr.; William D. Buzby, Jr.; O. Paul Decker; Sumner B. Emerson; Rowland H. George; George M. Grinnell; V. Theodore Low; George E. Richardson; Percy M. Stewart; Henry S. Sturgis; K. F. Tsolainos; James D. Winsor, III.

Municipal Securities Volume at Record High

IBA Municipal Securities Committee points out further that, despite increased volume of new issues, prices have ranged higher than any time during past two years. Pennsylvania issue, amounting to $375 million, a new record for a single flotation.

The Municipal Securities Committee of the Investment Bankers Association, under the Chairmanship of Walter W. Craigie of F. W. Craigie & Co., Richmond, Va., reported to the Convention at Hollywood, Fla., on Nov. 27 that in 1950, a new record in municipal issues will be reached, when aggregate total of new issues for the year will probably exceed $3 billion, with one issue alone, that of the Commonwealth of Pennsylvania Veterans Compensation bonds, amounting to $375 million.

Walter W. Craigie

Following is the text of the Committee's report:

In 1950 another all-time record-high volume figure has been reached. The year so far shows a total of over $3 billion in new issues of long-term municipal bonds. The previous all-time high was in 1949 when the figure ran close to $3 billion. It is interesting to note that each year for the past decade, with the exception of 1942, has been a record-breaking year in the municipal field as to either price or volume. Each year 1940 to 1946 inclusive (1942 excepted) record-high prices for municipal securities were reached. Then in the years 1947 to 1950 inclusive, record-high figures in the amount of new municipal issues were reached.

Another record set this year, was in the size of the sale of a single municipal issue. In April, 1947, the State of Illinois sold $300,000,000 Service Recognition Bonds. That set a new high in municipal bonds to be underwritten and offered to the investing public as a single issue. In March, 1948, the State of New York sold in a single sale $300,000,000 Soldier Bonus Bonds. Up to that time these two sales were the largest block of state or municipal bonds ever underwritten and sold as a single issue. On Feb. 16 of this year the Commonwealth of Pennsylvania topped this record with a sale of $375,000,000 Veterans Compensation Bonds.

The Municipal Market

Despite the increase volume in new municipal issues prices so far this year ranged higher (lower yield) than any time during the past two years. The market opened in this way and so held throughout. Beginning about mid-July there was a marked upward trend resulting from evidence of higher Federal income tax levies.

For the purpose of furnishing a general picture of the market movements during the year there is inserted below the average yield price for bonds of 20 large municipal units as shown by "The Bond Buyer's" weekly market index as of the first Thursday in each month for the past 12:

Date—	Yield
Dec. 1, 1949	2.11%
Jan. 5, 1950	2.07
Feb. 2 "	2.05
Mar. 2 "	2.02
Apr. 6 "	2.02
May 4 "	2.02
June 1 "	1.99
July 6 "	2.02
Aug. 3 "	1.85
Sept. 7 "	1.83
Oct. 5 "	1.82
Nov. 2 "	1.75

Approving Legal Opinions

In keeping with the authorization of our Committee at its meeting on May 17, our Chairman, Walter Craigie, wrote as follows to the municipal bond attorneys throughout the country, soliciting their help:

"In an effort to avoid as far as possible a repetition of certain recent unsatisfactory developments relating to the form of legal opinion offered by the issuer and the furnishing of essential closing papers with delivery of the bonds, the Municipal Securities Committee of our Association asks municipal bond attorneys to strongly urge municipal officials, where the opportunity is present, to include in their notice of sale the substance of the following language:

"These securities are offered for sale subject to the unqualified approving legal opinion of (name of approving attorney), the cost of which will be paid by the City (or County or District, as the case may be, or by the successful bidder if that be the intended requirement). The successful bidder will be furnished with said opinion and the usual closing proofs, which will include a certificate that there is no litigation pending at the time of delivery of the issue affecting the validity of the bonds.

"Obviously, of utmost importance in municipal security financing is a clean-cut, unqualified and marketable opinion approving the legality of the issue along with adequate closing papers, including a non-litigation certificate as of the date of delivery of the bonds. We have recently had the opportunity to talk about the current problem with a few firms of municipal bond attorneys. They consider the above request constructive and in the interest of maintaining municipal credit.

"The constructive work of municipal bond attorneys over the years in the field of municipal financing is greatly appreciated by investors, issuers and dealers. May we look forward to your cooperation in this present effort toward eliminating a detrimental situation."

Responses received from the attorneys in general reflect their interest and cooperative intent. Dealers, too, may be helpful in this connection when discussing a coming issue with municipal officials.

Negotiability

Last January, Mr. Joseph W. McGovern of the law firm of Sullivan, Donovan, Heenehan and Hanrahan of New York addressed the Banking Law Section of the New York State Bar Association on the subject of "The Non-Negotiable Revenue Bond."

In view of the importance of negotiability, it is well that issuers, investors and dealers be reminded from time to time of the full purport of its effect on the value and marketability of municipal bonds. Mr. McGovern's talk on the subject was, accordingly, very timely. He discussed the subject from various angles, including the problems and risks involved where negotiability is lacking and the advantages, protection and values where securities have the attributes of negotiability. Excerpts of Mr. McGovern's talk were published in the "Bond Buyer's" daily of March 6 and weekly of March 11. We recommend a reading or, in fact, a rereading of these excerpts.

Mr. McGovern also points out that to avoid the risks involved and to make municipal bonds fully marketable, it is most desirable that if possible all such obligations be in some way made negotiable instruments even though they are payable solely from a particular fund.

We fully concur in and have long urged Mr. McGovern's recommendation. It will be recalled that in 1938 our Association by resolution pointed out that under the present legislation of some states doubt exists as to whether the attributes of negotiability, within the provisions of the Uniform Negotiable Instruments Law, attach to bonds payable from a special fund, such as practically all municipal revenue or special tax obligations.

We recommend that legislation be enacted in the various states where needed providing that within the terms of the Negotiable Instruments Law of the State, any obligation of that State or its political subdivisions, or their agencies, or instrumentalities, even though payable solely from a particular fund or from special taxes, shall nevertheless constitute a negotiable instrument.

Since then a number of the states have enacted amending legislation to that effect. It is recognized that the statutes authorizing many revenue bond issues specify that the securities are to be a negotiable instrument within the meaning of the Negotiable Instruments Law of the State. However, there are instances where bonds payable from a special fund are not so covered by specific legislation, and to cover such situations it is essential in order to assure negotiability that the Negotiable Instruments Law of the states which have not been amended as above recommended be broadened so as to specifically include municipal securities where the promise to pay is conditional.

Special Committee on Revenue Bonds

In previous reports we covered the progress being made in the work of our Special Committee on Revenue Bonds. The Committee as presently constituted includes at least one member in each of the 12 Federal Reserve cities. The members are:

Francis P. Gallagher (Chairman), New York; LeRoy H. Apgar, New York; Oscar M. Bergman, Minneapolis; William H. Clark, Cleveland; Walter W. Craigie, Richmond; E. W. Darmstatter, St. Louis; O. Paul Decker, Chicago; Everett S. Emerson, San Antonio; Herbert V. B. Gallager, Philadelphia; William C. Jackson, Jr., Dallas; Elmus M. Kalloch, Boston; Chester W. Laing, Chicago; Mark A. Lucas, Jr., Kansas City, Mo.; Robert S. Mikesell, Toledo; J. W. Means, Atlanta; Ferris S. Moulton, San Francisco; Aaron W. Pleasants, Denver; Robert O. Shepard, Cleveland; Fred D. Stone, Jr., New York.

The Committee recommends a continued and even broader use of the Revenue Bond Report forms which it prepared and distributed generally about a year and a half ago among our members, the bank examining authorities and others.

The Committee also strongly recommends that those representing the issuers of municipal revenue bonds and dealers avail themselves of the valuable service which the "Bond Buyer" is providing. That paper publishes skeletonized reports of publicly-owned revenue-producing projects whenever the information is made available to it for that purpose. Further, current figures are compared with those of past periods when the latter are available. It is intended by the "Bond Buyer" that sufficient information will be given to enable anyone familiar with such reports to form an idea of the progress which the projects are making.

To the end of broadening the information in the hands of the head bank examining officials concerning revenue bonds, we sent to our members last June lists of the names and addresses of the supervisory banking authorities including the District Supervising Examiners of the Federal Deposit Insurance Corporation; the Chief Federal Reserve Bank Examiner in each Federal Reserve District; the District Chief National Bank Examiners of the Office of the Comptroller of the Currency; and the Chief Supervisors of State Banks.

This was done to facilitate our previous request that the principal

Continued on page 38

Airline Profits at Comparatively High Level

IBA Aviation Securities Committee, under chairmanship of Roger Cortesi, gives data on improvement in domestic airline earnings in 1950. Sees principal airline companies becoming independent of mail pay for profitable operations. Reveals "coach" operations give favorable results, and discusses probable impact of excess profits tax on airlines.

Roger Cortesi of Auchincloss, Parker & Redpath, New York, as Chairman, submitted the Report of the Aviation Securities Committee on Dec. 11 to the 39th Annual Convention of the Investment Bankers Association of America, then winding up its business at Hollywood, Fla. The report is replete with statistical data relating to activities of the airline companies, to which has been added considerations of developments in airline transportation.

The text of the Committee's report follows:

It is evident from the figures for the first eight months (latest available) that the 16 domestic trunk airlines will report in 1950 their highest dollar earnings in history and that operating earnings will exceed 1949 by a wide margin. It is clear that traffic and earnings are in a strong upsurge.

Table I shows the improvement in traffic and operating earnings during the first eight months as compared with the corresponding period of 1949. Comparative figures for the "Big Four" are shown in Table II.

The improvements in domestic airline earnings this year is the result of traffic gains and somewhat lower unit costs and are not to any extent due to higher mail payments. It will be noted from the above figures that mail payments in the aggregate for the 16 trunk lines were actually .8% lower than last year. Unit costs on an available ton-mile basis in the first eight months continued the downward trend in evidence since 1943 and were the lowest in 10 years. These costs represent a high level of efficiency and, from this point, can hardly be expected to be materially reduced in the near future.

From the figures available, it is possible to estimate with reasonable accuracy that the 16 domestic trunk lines will show an operating income for the full year of about $45 million compared with $24.6 million in 1949 and the previous peak of $36.4 million experienced in 1944. It should be noted, however, that the total current investment in the domestic operations of these 16 trunk lines is $507,517,000 as compared with $486,942,000 in 1949 and only $187,719,000 in 1944.

Total passenger miles flown by the 16 domestic trunk lines in 1950 will be at least 15% above 1949. Except for a moderate decrease (3%) in 1948, traffic, measured in passenger miles, has shown substantial increases every year, and the estimated 7.5 billion passenger miles flown in 1950 are up from 1.4 billion in 1941, an increase in the past 10 years of 435%.

At current operating levels, the "Big Four" have gone very far towards freeing themselves from dependence upon mail pay for profitable domestic operations. Their combined figures will show an operating profit this year before mail pay. In the case of the biggest airline, this profit will be substantial. It is perhaps significant that the biggest operator in the first nine months paid Federal taxes of $6,140,000 and received mail payments in the period of only $4,191,918.

The remainder of the airline industry is also showing an encouraging trend towards eventual independence of mail pay, but the importance of mail payments, as a contribution toward profitable operations cannot be overlooked. Nevertheless, it is highly noteworthy that the industry is making real progress toward a decreasing dependence on mail pay for profitable operations.

Results so far this year, particularly during the third quarter, clearly demonstrate the high earnings potential of the airline industry when the volume of traffic passes the break-even point. Once this point is reached, the great majority of additional revenue is carried through to operating income. Reported third quarter net earnings, after taxes, seasonally the best for most carriers, were $17.2 million for 1950 as compared with $10.9 million for 1949.

Outlook Promising

In the first eight months of 1950 the gross revenue of the 16 domestic trunk lines was derived from the following sources in the proportions shown:

Passengers	84%
Mail	9%
Express and freight	6%
Miscellaneous	1%

The current outlook is for continued high industrial activity, and expanding employment throughout the nation. This should be reflected in larger volume of traffic for the airlines. Military traffic has already broadened considerably and should do so even further. Constant improvement in navigational aids and better on-time performances also will aid traffic. The above considerations superimposed on the steady growth characteristics of airline industry should assure no interruption in its strongly growing traffic trend.

While mail revenues are determined by the CAB, it appears unlikely that such rates will be reduced until the rate of return on the airlines' investment has materially improved. Mail volume, on the other hand, should expand with business and military activity.

The very sharp growth of express and freight revenues which has been in strong evidence in the postwar period shows no signs of abating.

From an expense standpoint, it is unlikely that the airlines as a whole will for some years be faced with the heavy expenses incident to the introduction of new types of aircraft. Depreciation charges are likewise not likely to be materially increased. However, progress being made, especially abroad, in the development of jet and turbo-prop transports must be recognized as bringing nearer the day of reequipment for the major units in the industry.

Increased expenses should be expected, however, on direct flying operations from such items as fuel, maintenance, salaries and wages. On balance, the resultant of the above forces should be a continuation of the operating and financial improvement so strongly evidenced in the past year.

Coach Operations

The air coach experiment is a controversial subject within the industry; some operators are strongly in favor of expanding such services while others are for maintaining the status quo; some are strongly against such operations and some have gone along for competitive reasons only. Unfortunately, there are so few figures available that it is impossible to determine accurately and conclusively the contribution to airline profits or losses these operations make. There is little doubt, however, that such operations have enlarged considerably the air travel market. Coach operations have generally been conducted during night hours at a fare equivalent to four cents per mile, or about 33% less than standard fares. Some daylight flights have been permitted, but the CAB has recently ordered fares increased generally to 4½ cents per mile effective Nov. 15, 1950.

Ten certificated carriers now operate their coach schedules and serve 38 cities. The volume has so increased that air coaches now constitute about 16% of the total passenger miles and 13% of total passenger revenues of the scheduled carriers engaged in this type of service. Seven carriers have been operating coach services for at least all of this year with widely varying results. Table III shows the extent of coach operations in each system for the first eight months of 1950.

The information available indicates that about 30% of the air coach traffic was diverted from the regular fare service. This, of course, has meant a loss of revenue to the carriers insofar as the diversionary traffic is concerned, but, in the aggregate, it appears that total gross passenger revenues have increased substantially in most cases as a result. The above table indicates that coach

TABLE I

16 Domestic Trunk Airlines, 8 Months Ended Aug. 31

	Passenger Miles Flown (Million)	Tot. Gross Revenues $(000)	Mail Revenues $(000)	Mail Revenue to Total	Passenger Load Factor	Cost Per Available Ton Mile	Net Operating Income $(000)
1950	5,058	334,346	29,251	8.7%	61.7%	27.7¢	29,382
1949	4,420	305,666	29,480	9.6%	60.2%	28.8¢	19 062
	+14.5%	+9.4%	— .8%				+54.1%

TABLE II

9 Months Reported Earnings of the "Big Four"

	—Net Operating Profit (000)—			—Mail Pay (000)—		
	1949	1950	Change	1949	1950	Change
American	$8,405	$14,171	$5,766	$4,028	$4,192	$164
Eastern	4,106	5,521	1,415	2,363	2,412	49
TWA	6,859	9,738	2,879	*11,165	*10,948	—217
United	5,738	8,355	2,617	5,120	5,450	330
Total	$25,108	$37,785	$12,677	$22,676	$23,001	$326
			+50.4%			+1.4%

*TWA's large international operations account for its proportionately much larger mail pay receipts.

TABLE III

	Coach Rev. Pass. Miles (000)	Total Revenue Pass. Miles (000)	Coach	Coach Passenger Revenues (000)	Total Passenger Revenues (000)	Coach
American	61,014	1,097,660	5.5%	$2,800	$60,760	4.6%
Capital	72,762	329,316	22.2%	2,887	13,810	20.9%
Delta	30,468	186,262	16.4%	1,197	10,339	11.6%
Eastern	187,746	821,220	22.8%	7,510	46,192	16.3%
National	49,806	166,207	30.0%	2,043	9,004	22.7%
Northwest	118,047	349,615	33.8%	4,603	17,743	26.0%
TWA	84,768	703,376	12.1%	3,683	38,309	9.6%
Totals	604,612	3,653,656	16.5%	$24,723	$196,157	12.6%

operations have shown up favorably in terms of traffic and gross revenues, but not sufficient data have yet been published to allow an intelligent appraisal of coach service on the basis of the overall effect on the industry. Thus far, the CAB has demonstrated a cautious attitude by restricting such services to high density routes with minimum schedules in order to protect the basic fare structure. It is now engaged in conducting a thorough study of all phases of this controversial matter.

The Airlines' Emergency Role

Following the Korean outbreak, the airlines were called upon to play an important role in relieving the manpower and military equipment shortage in the Far East. Under Secretary of the Navy, Dan A. Kimbell, recently stated in a speech: "I think there is a clear lesson to be learned in connection with commercial air transportation as it relates to military emergencies. We have learned to count upon our airlines as a source of planes for emergency use." Similar praise for the industry has come from other military, Congressional and CAB personalities.

Within a very short time following the outbreak in Korea, the certificated airlines were called upon to furnish, and did furnish, 49 four-engined aircraft with crews to meet immediate military requirements. Had the necessity arisen for further transports, the civilian airline industry, as the only immediately available reservoir of equipment and trained personnel, would have supplied the need.

The Korean war provided one more dramatic illustration of the importance of the airline industry to national safety and consequently of the importance of promoting its financial strength so that it may progress from the point of view of both service and equipment.

Excess Profits Taxes

It seems appropriate at this time to explore the position of the industry with respect to excess profits taxes.

Administration plans call for the enactment of an EPT bill similar to that which was in effect during the last war but with a rate of 75% as compared with a rate of 85½% in the old bill. It proposes that the best three of the four years, 1946 through 1949, be used as the base period and that the resultant base be reduced by 25% before the 75% excess profits tax actually is computed. Corporations would be given the alternative of using an invested capital plan if they elected to do so instead of using the base period.

Relief of some kind is proposed for rapid growth companies and companies which have had little or no earnings in the base period and relatively little invested capital. The nature of this relief has not been made clear, but a study of how such an act would apply to the airline industry shows beyond doubt that this industry will have to be included among those specially provided for. The industry earned profits in only two of the base period years and the profits of one of those years were so insignificant that they are of little value. Note the following:

All Certificated Air Carriers

	Net Income or (Loss) AfterTaxes	Percent Return on Investment
1946	$(10,085,640)	---
1947	(26,404,005)	---
1948	886,716	.13
1949	24,982,989	3.58
Total	$(10,619,940)	---

The total investment of all certificated air carriers on June 30, 1950, was approximately $755,090,000. It is estimated that these carriers this year will have an operating profit of about $60,000,000, which, after taxes and fixed charges, will provide a net income of around $31,250,000. This would represent a return on investment of 4.14%. While this year will undoubtedly be the most profitable year in airline history, it can be said that it is only an approach to normal earnings and in no way does it represent a reasonable or fair return on investment.

Under the excess profits tax law, enacted in World War II, only a part of the investment was recognizable for tax purposes; exclusions were made in the case of borrowed capital invested in the business. Because of the rapid obsolescence factor of flight equipment, because of the prospect that the excess profits tax will be in existence for many years, and because of admitted considerations of national interest and defense, it seems imperative that mail pay and tax policies should be so designed to promote and invite airline progress through the profit motive. It would seem reasonable, therefore, that borrowed capital with which such flight equipment was or is purchased should be included in full in calculating the invested capital base. Such a proposal has been submitted by the industry.

The World War II excess profits tax also provided exemption from the tax for airline companies only if excess profit net income were not in excess of mail pay. This provision led to the presumption that if the excess profit net income were in excess of the mail pay, then no exemption at all would be allowed. This interpretation affected only one company during the last war, but it might apply to several if reenacted in the proposed bill. The proposed bill should be suitably drafted to provide excess profits tax exemption for airlines, at least equal to the mail payments received by them, especially since it would appear doubtful whether the wording of the original Act in this regard actually corresponded to the intent behind it.

The total present military aircraft procurement program calls for the expenditure of over $20 billion during the next five years. It involves the expansion of Air Force strength from 48 to 58 groups by the middle of 1951 and to 69 or 70 groups by 1953. A further program calls for 90 to 100 groups by the middle of 1954. Heaviest expenditures are expected to be made in 1951 to get the production build-up started. Purchases will probably decline somewhat in 1952-53 but are expected to level off after 1954 at about $4.3 billion annually.

In addition to the above, the Mutual Defense Assistance Program calls for about $1.1 billion in 1951 for the acquisition of aircraft, some of which, however, will probably be drawn from existing stocks. Further expenditures for this purpose are probable after 1951.

Order backlogs in the industry are generally three times the pre-Korea level and production rates are being increased as rapidly as possible. It is obvious that the industry will experience a major expansion in sales volume during the next several years. In discussing the expansion potential of the industry, the Aircraft Industries Association recently pointed out that with an unlimited production go-ahead, monthly production rates could be tripled at the end of one year, tripled again by the end of the second year and tripled once more by the end of the third year.

An examination of how the aircraft industry would fare under the proposed excess profits tax indicates that this industry, too, will require special treatment thereunder in the national interest.

The industry, as a whole, reported severe losses in the years 1947 and 1948 due, in part, to the postwar cancellation of orders and in part to the expenses incident to the development of new models. As a result, the major units in the airframe manufacturing industry would have, in effect, practically no earnings base for an excess profits tax exemption. Special treatment under the proposed tax act, therefore, appears necessary if the aircraft industry is to build up reserves and strength sufficient to allow it, when the present emergency is over, to continue being effective and progressive in the ever more expensive field of developing new types and models of aircraft.

The Aircraft Industries Association of America, Inc., has presented to the Ways and Means Committee of the House of Representatives recommendations in this regard which would appear adequately to safeguard both the public interest and the welfare of the industry.

Respectfully submitted,

Aviation Securities Committee

Roger Cortesi, *Chairman;* Henry W. Cohu; Chandler Hovey; John R. Longmire; Joseph A. Thomas.

TABLE IV

Projected Defense Aircraft Procurement Budget for 1951-54 and Thereafter

(Billions)

	1951	1952	1953	1954	Level Off
Air Force	$4.4	$2.5	$1.2	$2.0	$2.8
Navy	2.3	1.8	1.5	1.5	1.5
	$6.7	$4.3	$2.7	$3.5	$4.3

Continued from page 22

Sharp Decline in Industrial Security Offerings

banking firms in the industrial financing field.

The economic effect on our industry of about $8 billion of securities being locked up in institutional hands in the last 5¾ years is obvious. These billions of dollars worth of securities, a large part of which normally would be traded either over-the-counter or on exchanges, are lost to the market place. The seriousness of this is even more apparent when we consider that the cream of the publicly traded industrial securities is being removed from the securities markets in substantial volume by trustees in "prudent man" states, fire insurance companies, charitable institutions, pension funds and other professionally-run accounts, which have forced for income purposes into the equity market. Investment companies which are growing at a phenomenal rate are also taking desirable stocks off the market on a semipermanent basis.

It is the purpose of this report to record a trend that seems to be adverse from the standpoint of the industry and not to spell out the advantages and disadvantages of the private placement method. Mr. Frazar B. Wilde, President, Connecticut General Life Insurance Company, very ably did this at the American Life Convention in Chicago on Oct. 6, 1950. He took no stand for or against private placement, but it is rather importane to note that in the conclusion of his report the following significant statement was made: "The stimulus the device received from the enactment of the Securities Act means that it is not a wholly natural phenomenon. If society wishes to modify or abolish the system, it will have to do it by appropriate legislation. In the absence of legislation the direct placement method can be expected to continue in full force and effect for an indefinite time."

The challenge is clear.

Respectfully submitted,

Industrial Securities Committee

Robert W. MacArthur, *Chairman;* Earl K. Bassett; W. Rufus Brent; W. Rex Cromwell; Clement A. Evans; C. G. Fullerton; M. M. Grubbs; Matthew J. Hickey, Jr.; Harry A. McDonald, Jr.; Galen Miller; Stanley N. Minor; James W. Moss; Chapin S. Newhard; John J. Quail; Murray Ward.

Continued from page 20

Fundamentals of Public Relations Program

our customers read these inserts frequently, which makes them our best-read media. And they don't have to be elaborate—just interesting. One of the best-read and most popular telephone company inserts is a little four-page folder on flimsy yellow paper that hasn't varied its typography or format in a score of years. In all those years, too, it hasn't talked about anything but the telephone business—but it has always been good reading. Another company's insert, which features human interest telephone stories, is in such demand that it has a regular mailing list of former customers who have moved out of the State and requested that it be sent to them.

I'm told that a new stock transaction with a customer requires an average of two or three mailings. Other banking or investment customers receive monthly statements. What better opportunity to reach customers with messages that can be mutually helpful?

Another medium we consider valuable is displays. We use them in business offices, lobbies and at other locations where plenty of people will see them. The display you see in the telephone building window may also be found at the county fair. They range from simple placards to large demonstration exhibits. And they all help in the job of spreading information and gaining public understanding.

Here's a little incident that illustrates the value of actually showing people the thing you are talking about. In one telephone building, employees were invited to visit a series of displays telling about various aspects of the business. Each display was manned by a speaker who gave a three-minute talk to each group of employees in the tour. One exhibit was about A. T. & T. stockholders —the largest family of stockholders in the world. Its surface was covered by facsimile telephone stock and bond certificates. Here was a display such as you might have used yourselves.

After a day or two, the little talk that went with this display had to be revised. Nobody seemed to be listening for the first minute or so. What were they doing? They had their noses pressed up close to the exhibit and they were intently reading the stock certificates. Come to find out, most said they had never seen such a thing before. Many reached out and touched them. Others asked questions about them. Here apparently for the first time was tangible evidence of what they had been hearing—that investors put up their savings to buy the telephone equipment that employees need and use in their jobs.

I won't describe all the other means we use to tell the telephone story — space advertising, radio, movies and so on—but I would like to point out that we try to have the messages in every medium tie in with our policy. First, we tell people about what we're doing to furnish the *best possible service:* how we have spent over $5 billion in the last five years to expand and improve our plant; how we have introduced Operator Toll Dialing, a new and faster method of handling long distance calls; how we have provided a network of new communications highways of coaxial cable and radio relay that are also capable of transmitting television.

We also stress the fact that postwar increases in telephone rates, including those pending or planned, are less than the rise in prices of most other things people buy and that telephone service is a bargain. We emphasize that the increases requested are no more than enough to assure the *financial safety* of the System. We show what we are doing to maintain *fair treatment of employees.* And we try to give the public an idea of what the overall success of our business, based as it is on sound fundamental policy, means to the country in addition to the rendering of good telephone service: I mean such things as the flow of $2 billion a year in Bell System wages, which are spent for things that bring wages and profits to people in thousands of other businesses—and the purchase of $300 million worth of supplies and materials in a single year by Western Electric, which in 1949 bought from 24,000 concerns 2,400 communities —and the millions spent by the System since the war for new buildings, and the dividends paid to nearly a million stockholders in 19,000 communities, and the taxes paid, and so on. All these things are important to the general welfare and we want people to know it.

I appreciate that these are big subjects. But we don't have to use big words to tell about them. In fact, it seems to me that whatever the subject, we always need to talk about it as simply as we can. That may be especially important in your business too, for a lot of people have trouble understanding various aspects of stocks and bonds. For example, when one of our stockholders wrote us a letter recently he asked that we reply "in words an eighth grade student can understand, so I won't have to hire a lawyer to translate it." In letters we find the words "debenture" and "convertible" are called devonshire, devilshire, convertibrae and invertible.

Slogans

We have to be alert ourselves to avoid misunderstanding through our own use of telephone terminology. Let's call it "telephonese." For example, we have said *circuits*—that's telephone lines; *station*—that's a telephone; *traffic*—that's calls. Toll plant is not found in a botanical garden; it's long distance equipment.

Maybe you have a special brand of "bankerese" which could get in the way of public understanding.

At any rate, I found these titles referred to in one of your pamphlets, and I stumbled a bit myself: "Build a Well-Selected and Diversified Portfolio"; "The Engineering Aspects of a Revenue Bond Project"; "Insuring Our Technological Future"; "The Price-Earning Ratio."

On the other hand, I've noticed a few other titles which I felt I might like to read: "How to Lay A Nest Egg"; "Own A Share of America"; "Four Steps to Financial Freedom."

Giving out information is an important part of the public relations job, but we think that getting information is just about equally important. Once upon a time a man was married to a beautiful girl after a whirlwind courtship. On their honeymoon she took along two or three suitcases, but she seemed to be particularly anxious about a steamer trunk that rode in the baggage car. And when the happy couple arrived at their destination, the bride told the bellboy to put the suitcases in the closet but to place the trunk on the floor in the center of the room. Then she got down on her knees, opened the trunk, and started to murmur some kind of incantation. Slowly, from the bottom of the trunk, two king cobras raised their heads.

The bridegroom of course was speechless for a minute, but he finally managed to get a few words out. "Darling!" he said, "You never told me you were a snake charmer!"

"Oh, didn't I?" she said, "Well, you never asked me."

It seems to us that asking questions is a good idea, and twice a year we asked a cross-section of the public to give us their views on a lot of things related to the telephone business. I'm not going to drown you in statistics, but there is one fact that these surveys bring out over and over again. It is this: People who feel they have been treated in a friendly and courteous manner by telephone employees feel also that the company's general reputation is good. When we ask, "Are you always treated by telephone people the way you like to be treated?" 84% of the people who answer "yes," also say that the telephone company's reputation is excellent or good. Of those who answer "sometimes not" to the question, only 38% say that the company's reputation is excellent or good. That looks like more than a coincidence to me.

Importance of Courtesy and Friendliness

So courtesy and friendliness are of top importance all the time. We use films, booklets, skits, posters, recordings and demonstrations to help bring that home. But beyond courtesy — and beyond technical accuracy—there is one more consideration of equal importance. Bell System employees make about 2 billion public contacts a year. They are the most important single force for good public relations that our enterprise has. And to be reasonable and convincing in their dealings with the public, employees must themselves have a good understanding of their company's policies and the reasons behind them. We can't expect people outside the business to appreciate the whys and wherefores unless we first have an informed and understanding personnel.

So with varying frequency, depending somewhat on the kind of work that different groups of employees perform, telephone people meet regularly for discussion with their supervisors. In this way, as well as through the written word in company magazines, bulletins, booklets, and posters, they learn of the company's plans, problems and results. They talk about policy. And they discuss the reasons behind routines.

I think this is essential. If anyone should ask me what public relations activity I considered most important, I would right away answer, "A good job of employee education." You just can't have good public relations in a service business like ours or yours unless the employees know what their company stands for and consider it their job to tell the company story to the public.

In looking over your IBA Bulletins I was much impressed by the public relations program you have under way. I think you are wise too in making long-range plans, for no one could hope that your role in the American economy will be fully understood overnight. Certainly more people need to know that the job you do is of vital importance to us all, that you get new businesses started and keep established business going, that the benefit of your work flows out to all part of the country.

After all, successful businesses are the backbone of this nation. They make our economy tick. Successful and prosperous enterprises provide employment, pay good wages, buy immense quantities of materials and supplies, pay dividends to millions of stockholders and bear a substantial portion of the tax burden. Directly or indirectly they contribute to the well-being of every community in the country. I know that is true of our business, as I have already indicated, and it is no less true of others.

Therefore the job that you and your organizations are doing to help business finance its progress has an importance that can't be emphasized too much. You are in a key spot in the economy and your work has enormous influence. That's why your determination to make your activity better understood appeals to me so strongly. All American citizens will gain from having a better comprehension of the forces that produce their own prosperity. They need to know from you about your essential part in the process. So it seems to me that you are very much on the right track, and I am sure that with a sound basic policy, with a well-balanced and thorough informational program, and with courtesy all down the line, you are well on your way to winning a fuller measure of public understanding, confidence and esteem.

Bosworth, Sullivan to Admit J. H. Myers

J. H. Myers

DENVER, Colo.—J. Harold Myers will become a partner as of Dec. 7 in Bosworth, Sullivan & Co., 660 Seventeenth Street, members of the New York and Midwest Stock Exchanges. Mr. Myers for many years was Denver manager for Harris, Upham & Co.

Dreyfus Co. Admits William A. Brindley

William A. Brindley has been admitted to general partnership in Dreyfus & Co., 50 Broadway, New York City, member of the New York Stock Exchange, Curb Exchange and principal Commodity Exchanges. Mr. Brindley is a member of the New York Curb Exchange and was formerly a partner with the firm of Tobey & Kirk. He will represent Dreyfus & Co. on the Curb Exchange.

Continued from first page

IBA Holds 39th Convention

investment banker in that process, including the essentiality of the investment banker under private enterprise. The IBA film "America Looks Ahead" was produced ten years ago.

The Public Education Committee also had on display a model exhibit, entitled "Money Tells Its Own Story" and recommended that the Association authorize production of this portable exhibit for use by member firms and groups in all parts of the country.

The Education Committee, under the Chairmanship of Norman Smith of Merrill Lynch, Pierce, Fenner & Beane announced that at White Sulphur Springs, the "Board of Governors approved the establishment of a correspondence course in the Fundamentals of Investment Banking in order to make available throughout the country a training program comparable to the class room course set up immediately following the conclusion of World War II. This class room program benefited some 2300 trainees at more than twenty universities and colleges throughout the land. At the present time, however, the class room program is being offered in only a few of the larger cities: Chicago, Denver, Minneapolis and Washington. Hence, the home study program."

"The Education Committee," Mr. Smith said, "consulted a number of leading schools, completed arrangements with the University of Chicago, and in cooperation with the School of Business and the Home-Study Department of that institution announced the availability of the correspondence course as of Oct. 20, 1950. Registrations are being received at the rate of 15 to 20 a week and although only about a month has elapsed since the announcement we are pleased to say that we now have over ninety registrants. The University reports that never before have they had so heavy an enrollment for a new home-study course in the weeks immediately following the announcement. Many investment bankers at the officer-partner level have shown a personal interest in this training opportunity and are promoting the program. Incidentally, this course is available to the general public and many inquiries and applications are being received from this source. Wallace Fulton of NASD has been helpful and has sent our announcement folder to all NASD members encouraging them to enroll their trainees and to call the project to the attention of all employees."

On the basis of the success of this first home-study offering the Education Committee is considering the inauguration of additional courses.

Another project recommended at White Sulphur is the Manual on Merchandising Securities. On this real progress was reported. Members of the Education Committee and members of the Board of Governors have had the tentative draft of this manual for review and the Education Committee recommended to the Board that the manual be published. The project was initiated by George W. Davis and is being prepared under his direction. The preliminary draft is already being coordinated and edited and the booklet should become available early in 1951. It will be pocket size, 64 or more pages, and will sell for about $1.00-$1.50 a copy. It will be published by the Association under the auspices of the Education Committee and may well be a source of revenue and provide funds for other projects of the Association.

The Education Committee of the IBA also proposed an Investment Banking Seminar — a nine-day program to be held each summer and registrants to receive an appropriate certificate upon completion of three summer sessions. This Seminar is planned for personnel at the partner-officer level (somewhat akin to the Graduate School of Banking sponsored by the ABA).

Committee Reports

During the progress of the Convention, the member heard the reports of the various standing committees of the Association. The texts of most of these committee reports are given elsewhere in this issue of the "Chronicle."

Group Governors

The following have been elected by their respective groups to serve as Governors of the Association for three-year terms to replace members whose terms expired:

California

Joseph L. Ryons, Pacific Company of California, Los Angeles.

Canadian

James A. Gairdner, Gairdner & Company Limited, Toronto.

Central States

Hempstead Washburn, Harris, Hall & Company, Chicago.

Eastern Pennsylvania

Walter A. Schmidt, Schmidt, Poole & Co., Philadelphia.

Michigan

William M. Adams, Braun, Bosworth & Company, Detroit.

Minnesota

Bernard B. Knopp, The First National Bank of St. Paul.

Mississippi Valley

John H. Crago, Smith, Moore & Co., St. Louis.

New England

Charles M. Abbe, Blyth & Co., Inc., Boston.

New York

Clarence E. Goldsmith, White, Weld & Co., New York.

Northern Ohio

Frank B. Reid, Maynard H. Murch & Co., Cleveland.

Ohio Valley

Todd Cartwright, Sweney, Cartwright & Co., Columbus.

Pacific Northwest

Waldo Hemphill, Waldo Hemphill & Co., Seattle.

Rocky Mountain

Amos C. Sudler, Amos C. Sudler & Co., Denver.

Southeastern

Joseph W. Sener, John C. Legg & Company, Baltimore.

Southern

Hugh D. Carter, Jr., Courts & Co., Atlanta.

Southwestern

Victor H. Zahner, Soden-Zahner Company, Kansas City.

Texas

Edward D. Muir, Russ & Company, San Antonio.

Western Pennsylvania

L. Wainwright Voigt, Hemphill, Noyes, Graham, Parsons & Co., Pittsburgh.

National Committee Chairman

The following were announced as National Committee Chairmen for the year 1950-1951:

Administrative Review: Albert T. Armitage, Coffin & Burr Incorporated, Boston.

Aviation Securities: Henry W. Cohu, Cohu & Co., New York.

Canadian: J. A. Gairdner, Gairdner & Company Limited, Toronto.

Conference: Hal H. Dewar, Dewar, Robertson & Pancoast, San Antonio.

Education: Norman Smith, Merrill Lynch, Pierce, Fenner & Beane, New York.

Federal Legislation: William K. Barclay, Jr., Stein Bros. & Boyce, Philadelphia.

Federal Taxation: James M. Hutton, Jr., W. E. Hutton & Co., Cincinnati.

Finance: Richard W. Simmons, Blunt Ellis & Simmons, Chicago.

Governmental Securities: Robert H. Craft, Guaranty Trust Company of New York, New York.

Group Chairmen's: Ewing T. Boles, The Ohio Company, Columbus.

Industrial Securities: Chapin S. Newhard, Newhard, Cook & Co., St. Louis.

Investment Companies: Edward S. Amazeen, Coffin & Burr Incorporated, Boston.

Membership: Andrew M. Baird, A. G. Becker & Co. Incorporated, Chicago.

Municipal Securities: Lewis Miller, The First National Bank of Chicago, Chicago.

Oil & Natural Gas Securities: William S. Hughes, Wagenseller & Durst, Inc., Los Angeles.

Public Education: Joseph T. Johnson, The Milwaukee Company, Milwaukee.

Public Service Securities: Willard A. Lynch, W. C. Langley & Co., New York.

Railroad Securities: Charles L. Bergmann, R. W. Pressprich & Co., New York.

Research and Statistics: W. Yost Fulton, Maynard H. Murch & Co., Cleveland.

Small Business: Raymond D. Stitzer, Equitable Securities Corporation, New York.

State Legislation: Charles S. Vrtis, Glore, Forgan & Co., Chicago.

Stock Exchange Relations: James F. Burns, Jr., Harris, Upham & Co., New York.

According to the Report of the Membership Committee, the Association, as of Nov. 1, 1950, had 724 members classified as follows:

Class I	68
Class II	65
Class A	120
Class B	248
Class C	223
	724

In addition there were 921 registered branch offices of members. These totals compare with 686 members and 857 registered branch offices at the close of the 1948-49 fiscal year on Aug. 31, 1949.

Since Aug. 31, 1949, the Board has approved 52 applications for membership in the following classes:

Class II	1
Class A	2
Class B	12
Class C	37
	52

Also two memberships, previously canceled, were reinstated, making a total of 54 additions. Membership losses since that date total 16, of which three were due to consolidations between members. The net gain, therefore, since Aug. 31, 1949, is 38 members, exclusive of the applications which will be presented to the Board at this meeting. A list of membership changes since Aug. 31, 1949, is attached.

The Committee's chief project during the year has been its review of membership classifications. In this review it was found that a substantial number of inequities existed. Accordingly, as authorized by the Board at the Spring Meeting, the following changes were made and placed in effect on Sept. 1:

Classification Raised

To Class I from Class II	13
To Class I from Class A	11
To Class I from Class B	2
To Class I from Class C	2
To Class II from Class A	18
To Class II from Class B	4
To Class II from Class C	5
To Class A from Class B	47
To Class A from Class C	8
To Class B from Class C	42
	152

Classification Lowered

To Class II from Class I	1
To Class A from Class II	4
To Class B from Class II	1
To Class B from Class A	7
To Class C from Class B	20
	33

The net result of these changes upon the membership structure is given below. The figures used are as of Sept. 1, the effective date of the changes, and do not reflect additions and losses of members since that date.

Before Reclassification

Class I	41
Class II	54
Class A	96
Class B	271
Class C	256
	718

After Reclassification

Class I	68
Class II	64
Class A	119
Class B	248
Class C	219
	718

Continued from first page

Trends in American Fiduciary Fields

I have an idea that she was still feebly breathing in 1914; that her last illness began in 1918, that she had a rallying period, almost hysterical in nature, through the early twenties, and that she finally expired in a blaze of latter day blooming in 1929, to be buried forever on a rainy day in 1932.

If I measure a modern era, in what I have to say, therefore, I am inclined to start with 1929, and I am speaking of the approximate 20-odd years which have elapsed since that year.

I am no historian but it seems to me that it would be difficult to place one's finger upon any period of 20 years of human history during which a man from Mars could have observed more fundamental and sweeping changes in the habits of thought and the daily life of the inhabitants of this planet.

Look back, for a brief moment, at the England and America of the time of Victoria and Edward. In the realm of government and sociology Spencer was still arbiter; his liberal philosophy still demanded a minimum of state interference with individual freedoms; it was even asserted and commonly believed, strange as it may sound to modern ears, that in an ideal society man must have the right to enjoy the product of his own labor. Yes, that sounds strange to modern ears. When I asserted the value of that old-fashioned doctrine, in a recent debate with Arthur Schlesinger, Jr., a young professor of history at Harvard, I was roundly informed that no one had read Herbert Spencer since the days of William McKinley, and that any such platitude is nothing less than "corny" as applied to today's society. In economics, similarly, during Victoria's time, hard money was important. In the science of government a comparative freedom from direct taxation was considered good policy. The banking and investment system, and the art of managing other people's money, was strictly private in nature.

Today there is no hard money anywhere in the civilized world. Today the American banking system is the only banking system in the world which by any stretch of euphemism could be called private. Today the incidence of direct taxation amounts to fractional confiscation. In the Victorian management of other people's money, that most stuffily independent of professionals, the family trustee, was the subject of capricatures and cartoons in novels and in "Punch." He was the veritable Colonel Blimp of the business world. Today in His Majesty's empire the most important single fiduciary is the Public Trustee, set up, if you please, with Victoria government tax money, run by a sub-cabinet civil servant, with hundreds of employees; that agency of government had handled, 45,013 fiduciary cases by the close of its financial year 1949-50; it was administering, as of March 31, 1950, a total of nearly 250 million British pounds; it is acting in all corners of the Empire, with branches in various cities, as trustee, executor and guardian; it holds legal title to enormous and increasing areas of productive real estate, the value of which is not included in the figures I have given you.[1] It is a public ownership of the most virulent kind, operating in an area where privacy is the highest consideration and the strongest tradition.

Growth of Bank Trust Funds

In the United States, according to the reports of the Comptroller of the Currency (which were first published in 1928) there was held in trust by national banks in that year a grand total of just over $3 billion. Those trust funds chiefly represented old-fashioned family estates; they were administered in the Victorian manner, with heavy emphasis on so-called safety of principal, in large allotments for the benefit of people of wealth. The income tax rate in 1929 was infinitesimal; there was almost no estate tax. In the magazine "Trusts and Estates" for June of 1950, by way of contrast, one finds an artible entitled "Trust Funds Over Fifty Billions" (this reports only National Banks and State and Trust Companies) and one reads that in a single state, Pennsylvania, the total amount of personal trusts in State Chartered Banks alone (excluding the National Banks) exceeds the grand total in 1928 of all banks of all kinds in the whole Republic, and that in New York State the total of bank trusteeships may be nearly $15 billions. And, of course, that figure of $50 billions excludes all corporate trusts of every kind, mortgage trust indentures, bond indentures, pension and profit sharing trusts, most educational and religious trusts. Indeed it excludes, even, the insurance trusts of the nation which, while strongly personal and private in nature, are not listed according to the face values of the policies involved but which do, so to speak, constantly hang over the market for future investment. Nor, of course, are the countless individual trusts of the nation included in this $50 billion figure nor guardianships, conservatorships and committee arrangements of many kinds. Nor college and church endowments, nor library and cemetery funds; nor union treasury deposits, nor special reserves and accounts in thousands of business, banking, and insurance company accounts. Nor millions and billions in the hands of cities, towns, state and Federal governments which at law must be given the trust label.

Fifty billions, indeed! One may conservatively say two hundred billions as a minimum, and for all we know the total aggregate of all these fiduciaries may run many times that. There are no statistics of any reliable sort in respect of this fiduciary aggregate but we do know that in this nation of ours grand totals of everything from dollars to doughnuts have a way of reaching staggering proportions. The amount of other people's money, for example, which is in the hands of American lawyers, accountants, investment counsel and advisers, and just plain business men, for management must be immense. My own guess is that it may equal the amount in the hands of corporate institutions; for while the banks have been making great strides otward command of the field it is still true that only a minor fraction of the instruments which are recorded in the probate registries of the nation, chiefly wills, appoint corporate fiduciaries.

Decrease in Average Size of Trust Funds

There is, however, another side to this coin. The trend in England and in the United States toward decrease in average size of the fiduciary portfolio is all too well established. The 1949-50 report of the Public Trustee of England observes that the number of new trusts of less than £5,000 in value in that office increased in the year just closed from 53% to 54%. In the United States, where the banks advertise so extensively, and are now going to work on what amounts to a mass production basis, this tendency toward smaller average size trust portfolios is even more marked; one result of this active merchandising campaign is that the man of average means is coming to recognize the trust as the tool of the poor man as well as the rich. A survey made of nearly 150,000 trusts managed by 868 banks three years ago showed that nearly 74% of the trusts produced an annual income of less than $3,000; that 54% produced an annual income of less than $1,200.

Internal Revenue figures show an accelerating increase in the proportion of estates of less than $100,000. There are certainly many more estates of $100,000 and less in the United States than there ever have been at any time in our history. This statement, on consideration, is not wholly discouraging. As in the case of the decreasing average size of trust portfolios it is partly the testimony of increased American proprietorship. Our population has increased by more than 20 millions in the past decade (a fact not sufficiently recognized in most statistical computations) and naturally there are **more** small estates than there ever were. It may even be a good portent for the future. As James Bryant Conant said, in his "Education in a Divided World":

"Our unique contribution is not in abstract thought nor in art nor in poetry. It is rather in a demonstration that a certain type of society long dreamed of by idealists can be closely approached in reality — a free society in which the hopes and aspirations of a large fraction of the members find enduring satisfactions through outlets once reserved for only a small minority of mankind."

This is a kindly way to describe the "share the wealth" program to which we have now all become accustomed. In England that goal, with all that it implies is an official and continuing public aim, with admitted use by government of the power to tax for the precise and admitted social purpose of savings of previous generations. It forcing a redistribution of the has produced a convulsive change in Victoria's Kingdom but it is now historical fact. In this country we are not quite so frank in our official pronouncements. But nobody in his right mind any longer doubts either the purpose or the effect of modern legislation in the tax field, and, in many other fields. It is true, for one example, only, that the whole proceeds of the Federal Estate Tax is a paltry item in our national budget, not greatly in excess of the amount by which potato growers have been subsidized each year for several seasons — yet all the talk is for further increase and I think we must look forward during your lives and mine, unless we have a determined reaction of very great force, to a ceiling for all practical purposes upon income earnings (and at not too high a figure) and to an increasing taxation, yes even confiscation, of the bulk of substantial estates.

This, of course, will tend to place a premium upon the further establishment of charitable funds and enterprises of all sorts; some fraction of each generation's savings will pass into the domain of charity; but as recent events in Congress clearly show the charity must be pure and unadulterated and not rooted primarily in a spirit of tax avoidance. There will be an increasing tendency, also, to split up individual ownerships and to liquidate, on favorable terms, private proprietorships. For continuing to hold an income producing business until death supervenes is to invite grave risk if not disaster; it is a little like buying a quality bond at a high premium; there is only one way it can go in value if the tax collector is taken into account.

In 1943 Julian S. Myrick, Vice-President of the Mutual Life Insurance Company of New York, wrote an article for the "Life Insurance News" in answer to an article by Dr. Conant which had been published in the "Atlantic Monthly." Speaking of the 1943 tax rates Mr. Myrick asked:

"How much would you have to earn annually for 10 years or for 20 years, after allowing for modest living expenses, to leave your heirs, net, $100,000, or $250,000 or $500,000 or forsooth $1,000,000?"

He then set forth his answer by a chart which showed that—

To leave "net"	Annual Earnings for 10 years	Annual Earnings for 20 years
$100,000—it would take	$85,000	$32,000
250,000—it would take	600,000	190,000
500,000—it would take	1,270,000	550,000
1,000,000—it would take	2,130,000	1,075,000

These figures speak, of course, of savings other than life insurance. To some degree they have been ameliorated, for the man

1 Forty-second Report of the Public Trustee of England for the financial year 1949-1950: London; His Majesty's Stationery Office 1950.

who has a wife, and can keep her, by the marital deduction provisions of the 1948 act. But it remains very true that the problem of the well to do owner of the brick works, or the paint factory, or the dry goods store, (in other words of the typical successful American) who is uninsurable in large amounts and who dies with a half million or a million dollar proprietary value in his estate is an almost unsolveable one. He just cannot save enough out of his income after taxes, especially if he is not married or has lost his wife, to take care of his inevitable estate tax problem. So naturally he will play increasingly with the idea of giving his ownership away by degrees, or of selling out on a capital gains basis at a favorable chance. The Bureau of Internal Revenue reports a gross total of seven billions in gifts in the past 10 years. They are not all made out of sheer goodness of heart!

We are, therefore, observing the breakup of American fortunes, dead and alive!

We have, then, seen within 20 odd years three trends of marked importance:

First: An enormously increasing aggregation of fiduciary funds;

Second: A rapidly decreasing average size of fiduciary portfolios;

Third: A progressive breaking up of private proprietorships of many sorts.

I see nothing to check any of those tendencies. And I see no reaction as yet, of a positive nature, to a steadily increasing burden of taxation. Whether the revenue is or is not needed, we have apparently decided as a nation to eliminate the man of wealth.

Decrease in Income Yields

Upon the **fourth** tendency you need no instruction. There has been a continuing decrease in the amount of percentage yields in fixed income bearing securities of every kind. John F. Sullivan, Senior Analyst of Merrill Lynch, Pierce, Fenner & Beane recently pointed out that in 1929 the average yield from AAA bonds was approximately 4.73%; in 1939 it was 3.01%; in February of 1950 it was 2.58%. Where does it go from here? No one can say for sure, of course, but we all know what the sophisticated guess would be. It will go to 2%, perhaps lower.

And with the **fifth tendency** which comes to mind you also have a working acquaintance. There has been a continuing decrease, speaking in broad terms, of the purchasing power of the dollar. Dean Witter says that 10,000, 1940 dollars are now worth $5,700 in current purchasing power; that 10,000, 1940 dollars plus $2,500 in interest earned over 10 years are now worth $7,125 in 1950 purchasing power; but that $10,000 invested in five good stocks, including Chrysler and Standard Oil of California have, with their cash dividends grown to $66,000 in 1950, and are now worth, in real purchasing power $37,600.

And Morgan Stanley in its recent study of Pension Plans and common stocks, says:

"Tests of the relative performance of bonds and diversified lists of common stocks over long periods have, in a great many cases, shown better results from stocks. The best explanation we can give for this is that common stocks benefit from the growth of population, the reinvestment of retained earnings, and from increased efficiency, the introduction of new products, and all progressive developments. In short, there is a growth factor in common stocks which is not present in bonds or preferred stocks."

Trustees Reactions to Tendencies

The fiduciary management profession has naturally reacted to all of these trends. Trustees may be dumb but they still have a nervous system!

The **first** reaction displayed in fiduciary circles was that of the sophisticated lawyer. Seeing that the Victorian age had dried up the effectiveness of accumulated savings and that productive investment choices were constantly narrowing he began to draft his instruments with much broader investment powers. Indeed the recent report of the New York Trust Division which[2] laid the groundwork for the trust investment legislation of which you have heard so much in 1950 makes it plain that the custom has become almost universal among big city draftsmen of giving wide investment powers to private trustees.

The **second** reaction was that professional trustees demanded reform in the law so that unspecified trust powers would be automatically broadened. My "Model Prudent Man Investment Statute" has been adopted, since 1943, by 12 states, i. e.: Delaware (1943), California (1943), Minnesota (1943), Illinois (1945), Texas (1945), Maine (1945), Nevada (1947), Oregon (1947), Washington (1947), Idaho (1949), Kansas (1949), Oklahoma (1949). New York became 35% virtuous in July of this year. Other states are now actively pushing the reform.

The **third** reaction was to find some way to improve management economy and efficiency by some form of diversified collective arrangement. That reaction led to the creation of the tax-exempt common trust fund, of which there are now more than 70 discretionary funds, under statutes which have been enacted in more than 30 states.[3] It is now generally agreed, I think, that common trust funds are here to stay. Their growth is, however, only moderate,[4] for they are intricate in structure and difficult to administer. And, of course, they are not available to many types of trustees; they cannot be used, for example, by individual fiduciaries and they are not really suited to smaller banks, or to benevolent and charitable funds and foundations. So the American fiduciary is naturally turning to the shares of reliably managed investment companies and investment trusts. And the American estate planner is likely to think, nowadays, while outlining his recommended program, in terms of a family trust, most likely of the living trust variety, instead of a will, of life insurance for protective reasons, and of a diversified portfolio in the form of a good investment company or investment trust; the life insurance and the investment company shares to be acquired however, painfully out of earnings of the head of the family on a progressive and regular periodic basis. This is perhaps the best estate program that can be devised today for the average successful American man. It is certain to become more common.

There has been, as most of you know, some little doubt about the power and right of American fiduciaries to purchase the shares of investment companies and investment trusts. That doubt has, I am glad to say, been dissolving rapidly and if it had not been for the traditional and reasonable reluctance of trustees to take even a minor fraction of a chance on personal liability I believe that the very respectable quantity of sales already made to fiduciaries would have been vastly greater. But the desire to have the opportunity of well managed collective investment is very persistent, even where small doubts linger. There is growing clamor for final relief. For that reason there is a campaign under way, sponsored by a group of the investment company and investment trust industry which seems to me to be responsible and thoughtful in its attitude toward fiduciary problems, to bring about a definite change in the statutory law to permit acquisition and retention of this sort of security.[5] Since a great many jurisdictions are now operating under some form or the other of the prudent man rule it has seemed best to alter that rule a bit to specify these shares—a step which has needed to be done because of the old legal bogey of delegation, a peculiar objection levied against this type of holding. I hope that you will interest yourselves in this program and give it your support wherever you can.

It will be interesting, I think, to see how this desperate battle against the forces of corrosion goes forward in the fiduciary field. Indeed I shall summon up the courage, in closing these remarks to venture a few predictions, But before I make them I should like to reveal myself as a somewhat prejudiced optimist.

I am as much disgusted as the next man about the essential dishonesty of fiscal manipulation and political recklessness in respect to the savings of the people of this country. I am as much nettled as anyone else at the officious meddlings of pip-squeak bureaucrats, and at the blow-hard tendencies of small caliber characters who make the mistake of believing that they hold high office because they have earned it or deserve it. I sometimes wonder, with many of you, whether Lincoln could have been right in his high estimate of the judgment of all the people, for we certainly know that some large fraction of the people can be fooled and for a good part of the time. But in the main I am confident. I have watched American businessmen for 30 crisis-filled years. Those who have strength, courage persistence, intelligence and faith are pretty hard to stop in their tracks. They have proved their ability to find their way around or over about any obstacle that is put in their way. Inflation or no inflation, political trickery or more political trickery, we have, I think, the manpower, the brain power and the national will to overcome our problems and to maintain this nation in its present relative position; a position which is second to none.

The Fiduciary of the Future

I predict that the American fiduciary is going to be much more imaginative and alert. Compulsion is on the side of reform. He is going to have to be as alert, in New England, for example, as his great, great grandfathers were and far more alert than his fathers and grandfathers. Since the times have changed somewhat, he may not run Clipper Ships on trust money, unless it be by air but it is now clear that he must rid himself of all vestige of the so-called Series G Complex which has been so much an enemy of the industry. He will, I predict, strive rather less for the preservation of book values and rather more to keep abreast as best he can, in the area of real values and maintenance of the purchasing power of his portfolio and its recurrent yields. I predict, also, that considerations of economy, efficiency, complexity and relative safety will force him into collective action at an increasing pace. We shall behold that development not only in private fiduciary operations, but in public as well, and in the fields of labor associations as well as those charitable in nature. Your group will, therefore, pay increasing attention, I think to the special type of activity which is the subject of this morning's discussion. You may be drawn closer to the men in my profession in their sedate planning activities. We may see the evolution of estate planning packages, like the kits which appear these days in many branches of merchandising; consisting of life insurance and annuity contracts, some shares of investment companies and some securities of individual significance. It certainly requires an imaginative mind and a lot of courage to attack the problem of the future under circumstances like those of today but your industry is well equipped with both and I have no doubt that you will explore and develop this very interesting new market.

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2 A Report by the Trust Investment Committee, Trust Division New York State Bankers Association, 33 Liberty Street, New York (1949).

3 These funds (discretionary) are administering about $427 million. See American Trust Funds—a Nationwide Study, Trusts & Estates Nov. 1950 (P. 740).

4 But is accelerating markedly. Ten years ago there were only ten funds in operation, administering about $18 million.

5 Sec. A Proposed Amendment to the Model Prudent Man Statute, a pamphlet published by the Committee on Arrangements, Robert L. Osgood, Vice-President, Boston Fund Inc., Boston, Massachusetts, Chairman.

Continued from page 19

Output, Not Controls—Key Weapon In Crisis!

as to how we can handle the situation.

Distinction Between Defense Effort and All-Out War

Now, if we undertake for a long period of time a very substantial increase in national defense outlays (whether $30, or $40, or $50, or $60 billion, I can't make any estimates on it now) our task may be going to be even more prolonged and entail much greater tests on the American economy, but in order to reach some economic point—the best, most fast, secure, productive and vigorous—we have to analyze the distinction between that kind of defense effort and all-out war. Now, of course, if despite our best efforts we are drawn into an all-out war, we would be in a different kind of situation naturally, and nothing I am saying now would have any relevance to that. I am not here to discuss our defense in case of an all-out war. I am here to discuss the mobilization program we are now undertaking, trying to build up ourselves and others to arrive at a position where an all-out war may more safely be avoided. We must follow this course and work toward it and maybe we will be successful. The main distinction between this kind of defense mobilization and that involved in all-out war is two-fold.

First, in all-out war we must build our defenses more rapidly. We must build up enormous manpower like we did in 1941 through 1944, when 12 million men went into the armed forces, and we had an immense total conversion of military manpower, and also of the building up of the civilian labor force to supply the great military machine. Thus, a rapid conversion must take place. There is no alternative to all-out war, and nobody knows how long all-out war will be, but we presume it to be a limited number of years. In our plans for World War II we figured three, four, or five years, and it turned out to be four. So we have two reasons. First, we must act fast in the matter, and second, we cannot afford to delay industrial and civilian conversion to back up the military. In the conversion we undertake in entering all-out war, we deplete our strength at a rapid rate, we are neglecting reserves for a long pull, and have to fight right away, and we take that risk. And somebody may ask the question about our total strength five or ten years from now. The answer is: I don't know—that can't be arrived at. Five or ten years in the situation we now are in—so long as we are operating in absolute balance up to our strength, and decide to avoid an indefinite length of time in contrast to the long, hard pull, we have to be very much more careful about the balance struck between military strength on the one side and industrial strength on the other side. But we must maintain the strength of our business system by the increased industry, business, trade, finance, agriculture and labor, as well as fiscal strength—by which I mean they have to be more careful about the balance for the very important reason we don't know when the supreme test of our strength will come. We hope not at all, but do not know should it come in three or four or five years, or the next week—we hope it won't come at all.

That being the case, we can't afford to draw too heavily on our economic strength and military strength, because if we do so we deplete our reserves, and play out our hand.

In the second case, we can't do it because of the fact that in our free and democratic country, we must in any program primarily obtain the understanding of the majority, and I think personally one of the biggest problems facing us in the United States is whether, in this twilight period, we will be able to have the understanding of the people to continue to support the carrying of this burden which I think is imperative to our national security. We have to maintain a balance between our military and industrial and civilian strength much more carefully and in some cases much better than in World War II. I have always felt that few people who have gone around the country would say that to be strong we have to do what we did in 1944, and we would have to benefit from our experience between 1940 and 1944. Those people are fundamentally wrong, and misunderstand the situation, because we are not in 1944, and we hope we won't be, but now it is easy to look back to what we saw in 1944. We learned a lot, but we are in a different situation now, and we have to use a different policy and the public definitely should be prepared. The situation between 1940 and 1944 and 1950-51 is different for the reasons I have given which seem to be sound.

Control vs. Production

There are two kinds of economic policy which can be employed either in all-out war or the situation we are now in. One is based on control, the other is greater production, not only public but private, because production is certainly undertaken in our country through private control, and has an effect on public policy, whether it is government or self-control. In the final analysis, every type of control, whether in the large steel industry, in automobile output, or for national defense, goes into national defense. Where we have taxation for the purpose of paying for, or need higher taxation to pay for a large heavy demand of a certain type of production we should have it because it is needed for national defense. In other words inflation is primarily a word which does not explain the underlying situation. Inflation implies too much money and buying power competing for a limited supply of goods. If controls are designed one way or another to get goods where they are needed, we could control competition for these products.

The second device is that of increased production. In the long run that is a more favorable solution and the more fundamental.

The final reason is everyone in a world struggle ought to try to select the weapon he can use best. I don't believe we are ever going to be able to out-control the Russians. I do think we can outproduce them, and if our production increases fully, more and more, though gradually, we can narrow the potential gap between us and them—that is our fundamental strength.

A Change of Control Policy

All this should imply economic policy contrary to the policy in World War II, when we placed major reliance on control and secondly on production, and had to convert rapidly. Contrarywise, now we can reverse production and control to place major reliance on production and secondarily on control, for the reasons which I have already stated.

Possibilities of Expanded Output

Regarding World War II itself, I would like to give a few figures of importance concerning the production side of the picture. Between 1939 and 1944, a period of five years, despite the fact that about 12 million of our best production men were withdrawn from potential use to the direct war effort (it had to be done despite that fact in order to fight an all-out war in all parts of the world) we expanded our total production strength by about 75% in these five years and I think if production had expanded only 35% or 45% in these five years we would have lost.

Now if over the next five years we could expand our defense effort, if we should be able to equal the production record of the five years between 1939 and 1944, that would mean, five years from now, measured in a constant price against national output, which is now of $280 billion, our national output would be $500 billion. Before anybody looks on these figures as outlandish, fantastic, beyond imagination, let me take the privilege of calling their attention to the fact that a year or two ago it occurred to me that in a five-year period we might have reached the $350 billion mark and in 1950, before the Korean event, we were up to $270 billion, and so close to $300 billion that it was perfectly obvious we would be there in at least two years ahead of the 1954 date I had spoken about. If over the next five years we can expand as in 1939-1944, we can lift our national output, our real strength, to a point that our production will be large enough to support any defense program, even within the maximum size that has been talked about.

That of course does not mean we can have all the things we could have if there was no defense program. Obviously we can't have our cake and eat it too. Whatever progress we make in the next few years will be less effort on our defense burden, and we must not sell America short, but we must not overestimate our present strength and potential. We must step up and expand our real strength by more investment, more capitalization, plant and more equipment.

In that way, and that way alone, we can bring to bear this great strength which is not in management or labor alone, but is also in the utilization of our production techniques. We had a different set of circumstances in 1939 than we have now. To say that because there were more unemployed in 1939 gave us more manpower is erroneous. All this must be balanced with the fact that the armed forces took almost 12 million men. When allowance is made for that we have as much manpower for our industrial effort as in 1939. And in the second place, the industrial strength lies in its techniques, in what it does with its manpower, its plants, its kind of business management, as well as in its labor. That is what we excel in—we know from World War II.

I must underscore the fact that to realize the full productive strength of the American economy, our primary task is to help set high sights. Just as a starter I emphasize, that in 1940 the task seemed to many so far beyond the reach which we attained. We need a better information service on the part of the government, more analysis of production, business and labor. With all groups working within themselves for more understanding, we can achieve production profoundly greater. The government should remove road blocks and provide stimuli to production.

Cannot Control Inflation Through Production

Although production is the main fighting weapon we have—and we must do everything possible to stimulate that—let us not get the idea that through production we can control inflation. It is a basic fact that production will generate income and buying power. Total production would only avail more business and consumer buying power, but the defense program will be between the income generated and the amount of goods available to business and consumer buyers insofar as the gap is represented, but a deficit, insofar as the government cannot draw out the amount to take up the other factors at work entirely, must normally be covered by taxation. The burden of national defense must be borne by the nation and the people whether they are taxed for it or not, because when you put management, labor, plant, equipment into a defense fund, you don't have available civilian and business enjoyment and you have to pay for the burden, and if you try to buy it by so-called borrowing, it is a misnomer.

Thus, if I have $100 in the bank and it is used by a businessman who borrows it for plant and production, he draws the strength off the economy, and my savings an asset, but if I have $100 in the bank and it is used to produce an anti-aircraft gun—necessary though it might be—there is no asset backing my saving on which I can later draw. It is a military asset, and it makes no difference if it is $100 or $100 billion which I have. The idea

you can avoid the cost of national defense instead of paying for it is a delusion and the only consequence is in the long run you have to pay more through inflation and carrying charges, but you must pay for the defense program that should arise whether through wise financing or through taxation, as it was done in World War II. And I think more taxation should have been done and if it would have been done, we would all be better off, but if we have a defense burden of the size we now contemplate, in any range now talked about, the safest, most productive, least costly—is to pay for the defense program as we go along. Thus, it is so much more important that we keep pounding on the tax bills before Congress, not any particular tax bill. Let me say frankly that the large and prevailing sentiment among business people is that we ought to pay through taxation, as we go. But it is more difficult to get agreement on any tax bill before Congress, for taxation is such a complex matter, and if we wait to get in agreement, we won't have a tax program. More important, in my opinion, is to move ahead promptly on any tax program in the range of what is reasonable. The most important aspect is the faster we can do it, we will move primarily against inflation. It seems to me from the long range standpoint, this will be best, in that we would not have to face the last desperate direct war production controls.

I cannot prophecy if these controls will be employed or to what degree. They have been authorized and the power to act exists, but I can't say when. In my judgment I hope we are going to be able to get value enough out of general control, of which taxation is the most important, as to avoid throwing the economy for a long hard pull into direct war production controls over the whole economy. I do know that the checks which we are taking now and which seem hard and, on the whole faster and more certain, we are going to be forced into the kind of more detailed controls which are not shorter or as successful and which cost more in the long run.

People's Attitudes Make Business Policy

It seems to me that every citizen, whether in business or government or anywhere else should realize that the idea that business policy — is made by a few in Washington is erroneous—business policy is made in the long run by the attitudes of the people, which in time are reflected in Congress. And even though this influence may be slow, tardy and not complete, in the long run it is going to be felt. What is going to happen is based on understanding and knowledge, labor and the people. And always based on this point, business people are in an important position to help shape job as well as price policy and have a responsibility as well as a challenge to do so. First, in helping to forge forward for the kind of economic production which will not force us into an alternative the reasons for which I have given, we must move along the road to fiscal and monetary control and must not be thrown on a detour, a more circuitous and dangerous road. Second, the problem of restricting production is not only the problem of the government but of business. Everyone of course is analyst enough to know in the current business situation that price and wage increases since the Korean incident are uncalled for, unnecessary and indefensible, in terms not on increased demand. The government did not spend more money, but prices started going up and wages, too, based on expectancy, based on understandable desire to capitalize on the potential situation. Any analyst realizes that supply and demand after the Korean event did not justify the extent of inflation which has taken place.

There are two ways of dealing with our present sick economy. One is through control. The second is through self-control. I am still optimistic enough to believe, to have faith in the American system, to believe that an aroused business community, the majority of which are sensible, thoughtful people will use any device which they have readily on hand to go along with such control, along with some of our self-control, and get a degree of sound business policy which, though not easy, would reduce controls. And it brings business and government and farm and labor people together. If everyone tries to shift the responsibility, business to the government, government to business, we are sunk, because we are tried as never before. I have always felt our strength our free enterprise and our American way of life fundamentally depends on business and labor, as well as government. That's the kind of system we've got. Whenever I hear anyone say that's all right for wartime, I want to say to that person, you are saying the American system cannot work in the event of an emergency, or if it cannot work in the event of an emergency, or the partial emergency we are going to have for a long time, then you are admitting a grave liability. I do believe the American system will work in a partial or even in a full emergency.

Material Shortages Endanger British Rearmament

By PAUL EINZIG

Dr. Einzig lays serious raw material shortages in Great Britain to U. S. strategic stockpiling. Says consumption, in spite of rearmament, will be defeated because of sheer lack of supplies. Foresees, as consequence, increase in unemployment and recommends correct international distribution of essential raw materials.

LONDON, Eng.—During the last few weeks Britain has become suddenly very raw-material-conscious. The subject has gained considerable prominence in the press, and it was raised on repeated occasions in Parliament. While until recently a great deal had been said about the rising prices of raw materials, the concern felt over this has become overshadowed by the widespraed and acute concern felt over the inadequacy of supplies. On that subject information is pouring in from every quarter.

Dr. Paul Einzig

It is now feared that supplies of non-ferrous metals next year will be inadequate to maintain existing levels of output. This would mean a severe blow to the export drive and to rearmament. At the same time the resulting decline in the volume of goods available for civilian consumption would accentuate the rising trend in the cost of living caused by the high prices of raw materials which are gradually translating themselves into higher prices of manufactures.

This situation is attributed in the first instance to the world-wide scarcity of strategic raw materials brought about mainly by American stockpiling purchases. Twelve months ago such purchases were looked upon as an unmitigated blessing that would prevent the development of a postwar slump. By the end of 1949 the wartime shortages had given way to an excess of supply in many commodities, and the problem was to find solvent markets for them. Even before the beginning of the rearmament drive this state of affairs underwent a fundamental change. Judging by the rising trend of commodity prices, the surpluses had been absorbed and demand had exceeded supply. The main cause of this has been the rising trend of production in all industrial countries. Europe has more than recovered her prewar producing capacity. In particular, Germany and Japan succeeded in making good progress in industrial output. The trade boom in the United States absorbed increasing quantities of raw materials.

Added to this demand was the demand by governments for stockpiling. Although American stockpiling purchases were by far the most important factor, other governments, including Soviet Russia, were also in the market. The extent of such purchases increased after the invasion of Korea, especially as larger quantities came to be absorbed by current rearmament needs. Notwithstanding this, it was not until quite recently that acute shortages became evident.

The deterioration of the raw material position is largely due to the fact that on both sides of the Atlantic civilian consumption is sought to be maintained at its pre-rearmament level in spite of the additional requirements due to rearmament. In Britain it is the government's deliberate policy to avoid any substantial reduction in the standard of living through rearmament. In the United States it is the natural result of growing prosperity that demand for civilian goods is maintained at a very high level. The aim in these and other countries is that arms orders should be met as far as possible by means of a further increase of the output and not by means of cutting civilian production. This necessarily means an increase in the demand for raw materials.

It seems, however, that the endeavor to maintain civilian consumption in spite of rearmament will be defeated, not through any deliberate government policies aiming at a curtailment of civilian demand but through sheer lack of raw material supplies to meet the increased requirements in full. Indeed there is a risk of a decline of production and a development of unemployment as a result of the inadequacy of raw material supplies. British manufacturers are viewing the prospects with grave concern, and so are Socialist politicians who are worried about the political consequences of an increase of unemployment. But by far the gravest aspect of this situation is its possible effect on the rearmament drive. Even though the government indicated its intentions to restore the system of priorities if necessary in order to ensure the continuity of essential work, many industrialists are inclined to envisage the possibility of a curtailment of their capacity to carry out rearmament orders.

The most important step in the right direction would be the establishment of close cooperation between the Democratic countries to ensure a correct distribution of the limited supplies of essential raw materials. The Office of European Economic Cooperation is endeavoring to coordinate Western European requirements, and discussions are in progress also between London and Washington. In particular the European governments are anxious to persuade the United States Government to moderate its stockpiling purchases which, it is argued, would defeat their objectives in existing circumstances. It would tend to handicap European rearmament and would tend to aggravate economic conditions in Europe, thereby improving the chances of Communists to disseminate discontent.

To a large degree the solution of the problem lies in the hands of the British and other European governments. They must realize that they cannot eat their cake and keep it. In a recent speech the new Chancellor of the Exchequer, Mr. Gaitskell, pointed out that as a result of rearmament the British public will have to choose between producing more or consuming less. To a large degree, however, this choice does not exist. In many lines it is impossible to produce more, owing to lack of raw materials. Therefore it is inevitable that civilian demand in such lines should be curtailed by some form of government intervention.

Continued from page 29

Municipal Securities Volume at Record High

underwriter of each new revenue bond issue send a copy of the prospectus covering the issue to these supervisory banking authorities—that is to those in the area in which it is believed that the bonds are likely to be sold. Obviously, the purpose is to inform the bank examining authorities in Washington and in the field of the particulars of such issues.

In our Interim Report of last May we advised that we had been requested to appoint one of our members to represent us on a **"Joint Committee on Fundamental Considerations in Rates and Rate Structures and Related Financing for Water and Sewage Works."**

The President appointed Francis P. Gallagher, Chairman of our Special Committtee on Revenue Bonds.

The Joint Committee had its inception at a meeting of The American Bar Association in Cleveland, Ohio. Participating organizations on the Committee and representatives of these organizations are:

American Bar Association-Municipal Law Section—John D. McCall (Chairman), McCall, Parkhurst & Crowe, 1501 Mercantile Securities Building, Dallas, Texas; George F. Baer Appel, Townsend, Elliott & Munson, Provident Trust Building, Philadelphia 3, Pa.; H. E. Russell, Hawkins, Delafield & Wood, 67 Wall Street, New York 5, N. Y.; E. Edelman, Special Bond Counsel, Reconstruction Finance Corporation, 4433 Warren Street, N. W., Washington, D. C.; Harold S. Shefelmen, 1612 Northern Life Tower, Seattle 1, Washington; Jefferson B. Fordham, Dean School of Law, Ohio State University, Columbus, Ohio; Charles W. Smith, Chief, Bureau of Accounts, Finance & Rates, Federal Power Commission, Washington, D. C.; Arnold Frye, Hawkins, Delafield & Wood, 67 Wall Street, New York 5, N. Y.; William F. Tempest, Counsel, Conservation Bureau, Portland Cement Association, 33 West Grand Avenue, Chicago 10, Ill.; W. James MacIntosh, Morgan, Lewis & Bockius, 2107 Fidelity-Philadelphia Trust Bldg., Philadelphia 9, Pa.; and Stephen B. Robinson, 458 South Spring Street, Los Angeles 13, Calif.

American Society of Civil Engineers—Samuel A. Greeley (Chairman, 220 South State Street, Chicago 4, Ill.; E. H. Aldrich, American Water Works Service Co., 121 South Broad Street, Philadelphia 7, Pa.; George P. Steinmetz, Chief Engineer, Public Service Commission of Wisconsin, State Office Bldg.; Madison, Wis.; Clarence J. Derrick, Commissioner, Board of Public Works, City of Los Angeles, 2021 Kenilworth Avenue, Los Angeles 26, Calif.; Francis S. Friel, 121 South Broad Street, Philadelphia 7, Pa.; and Thomas M. Niles, 220 South State Street, Chicago 4, Ill.

American Public Works Association—Ralph W. Tatlock, 360 West First Street, Dayton 2, Ohio.

American Waterworks Association—D. L. Erickson, City Engineer, Lincoln, Neb.

Federation of Sewage Works Associations — George J. Schroepfer, Professor, University of Minnesota Minneapolis, Minn.

Investment Bankers Association of America—Francis P. Gallagher, Kidder, Peabody & Co., 17 Wall Street, New York 5, N. Y.

Municipal Finance Officers Association—E. P. Riehl, Deputy City Controller, Detroit, Mich.

National Association of Railroad & Utilities Commissioners—Frank W. Foster, Electrical Engineer, Illinois Commerce Commission, Springfield, Ill.

The Committee continued its studies at a meeting of The American Bar Association held in Washington, D. C., during September, 1950, and will probably file its report during the year 1951.

Revenue Act of 1950

In the latter part of September, Congress enacted and the President signed (Sept. 23) the Revenue Act of 1950. Section 203 of this Act prescribes the treatment of bond premium in the case of dealers in tax-exempt securities. Such premium to be amortized, without deduction for loss, in the case of all tax-exempt bonds held more than 30 days which have a maturity or call date of five years or less from the date of acquisition. For reference purposes the full text of the section is set forth below:

"(a) **Amendment of Section 22.**—Section 22 is hereby amended by adding at the end thereof the following subsection:

"'(o) **Dealers in Tax-Exempt Securities.**—

"'(1) **Adjustment for Bond Premium.**—In computing the gross income of a taxpayer who holds during the taxable year a short-term municipal bond (as defined in paragraph (2) (A)) primarily for sale to customers in the ordinary course of his trade or business—

"'(A) if the gross income of the taxpayer from such trade or business is computed by the use of inventories and his inventories are valued on any basis other than cost, the cost of securities sold (as defined in paragraph (2) (B)) during such year shall be reduced by an amount equal to the amortizable bond premium that would be disallowed as a deduction for such year pursuant to section 125 (a) (2) if the definition in section 125 (d) of the term 'bond' did not exclude such short-term municipal bond; or

"'(B) if the gross income of the taxpayer from such trade or business is computed without the use of inventories, or by use of inventories valued at cost, and the short-term municipal bond is sold or otherwise disposed of during such year, the adjusted basis (computed without regard to this subparagraph) of the short-term municipal bond shall be reduced by the amount of the adjustment that would be required under section 113 (b) (1) (H) if the definition in section 125 (d) of the term 'bond' did not exclude such short-term municipal bond.

"'(2) **Definitions.**—For the purposes of paragraph (1)—

"'(A) The term 'short-term municipal bond' means any obligation issued by a government or political subdivision thereof if the interest on such obligation is excludable from gross income; but such term does not include such an obligation if (i) it is sold or otherwise disposed of by the taxpayer within thirty days after the date of its acquisition by him, or (ii) its earliest maturity or call date is a date more than five years from the date on which it was acquired by the taxpayer.

"'(B) The term 'cost of securities sold' means the amount ascertained by subtracting the inventory value of the closing inventory of a taxable year from the sum of (i) the inventory value of the opening inventory for such year and (ii) the cost of securities and other property purchased during such year which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year.'

"(b) **Technical Amendments.**—

"(1) Section 113 (b) (1) is hereby amended by adding at the end thereof the following:

"'(I) in the case of any short-term municipal bond (as defined in section 22 (o)), to the extent provided in section 22 (o) (1) (B).'

"(2) Section 125 is hereby amend by adding at the end thereof the following new subsection:

"'(e) **Dealers in Tax-Exempt Securities.**—For special rules applicable, in the case of dealers in securities, with respect to premium attributable to certain wholly tax-exempt securities, see section 22 (o).'

"(c) **Effective Date.**—The amendments made by this section shall be applicable to taxable years ending after June 30, 1950, but in the case of a taxable year beginning before and ending after such date the amendments shall apply only with respect to obligations acquired after such date."

It will be recalled that the measure as first passed by the House provided that these amendments apply to taxable years beginning after Dec. 31, 1949. Various members of our industry accordingly directed to the attention of the members of the Senate Finance Committee the severe hardship that would be imposed by the retroactive feature of the bill in the form originally passed by the House; also the fact that the 30 days' holding period is so short as to be unduly burdensome from time to time in the normal operations of the business.

Our Chairman, Walter Craigie, testified concerning the effective date of the proposal before the Senate Finance Committee on July 11, last as follows:

"Retroactive Feature Hardship"

"Secondly, to make the provisions of this section retroactive would impose a severe and, I am quite sure, unintended hardship upon hundreds of dealers—large and small—throughout the country. In the case of my own firm, we would have to review over 500 transactions which have taken place since Jan. 1, 1950, go back and ascertain the purchase date of each item, compute the amortized book value as of Jan. 1, 1950, recompute it as of the date of sale, then figure the amount of profit or loss involved.

"Proper preparation for the requirements of any such proposed amendment to the present law necessitates the setting up of amortization tables, in advance, for each lot of bonds to be affected. To attempt to unscramble these past transactions, **figuring backwards,** would impose, in our own case, about two months' work and perhaps the employment of outside accountants. The problem would be magnified many times in the case of larger dealers.

"On page 50 of Mr. Doughton's report from the Committee on Ways and Means accompanying H.R. 8920, it is stated that the Bill is intended to close any so-called loopholes '. . . without unduly complicating the accounting procedures of dealers.' It is apparent, therefore, that it is not the intent of the Bill so to burden the dealers. However, the retroactive provision does just that.

"I urge as strongly as I know how that the effective date of Section 202* be made January 1, 1951, which will allow proper time for the accounting changes necessary to provide for the orderly amortization of the bonds covered by this section." (*Later changed to Section 203.)

Walter Craigie also strongly recommended in his testimony that the holding period which is set as thirty days in the bill be made sixty days. As will be noted from the foregoing quotation of the section, Congress did not make any change in this feature. It still remains thirty days after the date of acquisition.

The Senate Finance Committee amended the section by adding the last paragraph thereof as shown above: (c) **Effective date.** In its report on the measure (S. Report No. 2375) the Committee stated:

"In the House bill this provision was effective for taxable years beginning after Dec. 31, 1949. Witnesses who appeared at your committee's hearings pointed out that the use of this effective date would require extensive and costly reexamination of transactions which occurred before notice was given of a change in the law by the enactment of the House bill. Therefore, your committee has amended the bill so as to require the amortization of the premium on all securities purchased on or after July 1, 1950, but in the case of securities held on June 30, 1950, such amortization will be required only with respect to taxable years beginning after that date."

While the bill was under consideration in the Senate, Senator Morse of Oregon proposed an amendment which would subject

the interest of state and municipal securities issued on and after Jan. 1, 1951, to Federal income taxes and the interest of securities of the United States, its territories, possessions and their subdivisions, issued on and after Jan. 1, 1951, to state income taxes. This proposal was in keeping with the bill which Senator Morse had introduced in the Senate in September, 1949, and on which we reported in our Annual Report last December. The Senate rejected the proposed amendment.

National Housing Act

Another Congressional enactment this year of special interest to municipal dealers was Section 401 (a) of S. 2246, the Housing Act of 1950. It became law on April 20. It authorizes Federal loans to assist educational institutions to provide housing for their students and faculties under certain conditions.

It will be recalled from our previous advices that the measure in the form originally passed by both the House and the Senate contained nothing whatever to limit such loans to situations where funds or credit for the purpose were not otherwise available from private sources at fair going rates and conditions. This was despite the fact that millions of dollars of funds each year are obtained by educational institutions from private sources on their revenue bonds at reasonable rates and conditions for the character of the loan being made and for reasonable periods.

Had the section in question been enacted into law in its original form it would have not only created Federal Government competition with private industry in the field of security financing but it would have unnecessarily increased the Federal debt. Through recommendations by members of your committee and various other members of our industry the section was finally amended in Conference Committee in a way intended to relieve the situation. It is hoped that this will prove to be the case. We reported fully on this enactment in our Interim Report of last May.

Advertising Municipal Securities

Municipal dealers are familiar with the advertising contest which the "Bond Buyer" is conducting. Its purpose, in active support of that part of the program of our Public Education Committee relating to advertising securities, is intended to arouse greater interest in and develop more effective methods of advertising municipal securities.

Monthly winners in this contest are selected by a committee of three judges chosen by the "Bond Buyer" from advertisements submitted each month by contestants. From among these monthly winners, January to September inclusive, the first annual award will be made by the "Bond Buyer." The announcement will be made at this convention.* The award will be for the advertisement which the committee of judges considers the best for originality, effectiveness and leadership. It will be in the form of a plaque suitably inscribed. The writer of the ad will receive from the "Bond Buyer" $100 in cash. Monthly winners from which the annual award will be made were:

From ads entered in:

January — The Marine Trust Company of Buffalo. The name of The Illinois Company, Chicago, also appeared on the advertisement.

February — Ira Haupt & Co., New York (received the award).

March — The Northern Trust Company, Chicago.

April—The Ohio Company, Columbus.

May—Shields & Company, New York.

June—The Ohio Company, Columbus.

July—The First of Michigan Corp., Detroit. The name of Miller, Kenower & Co., Detroit (now Kenower, MacArthur & Co.) also appeared on the advertisement.

August — The Ohio Company, Columbus.

September—Blyth & Co., Inc., New York.

We understand that this advertising contest will be continued. It will be recalled that in order to qualify for entry in this contest an advertisement may or may not have been published in the "Bond Buyer" or any other publication. It may be prepared especially for this contest. Each contestant may submit for consideration as many advertisements as he wishes.

In collaboration with the State Legislation Committee we are currently studying sections of the blue sky laws with a view to recommending amendments, where needed, that would clarify and improve the provisions exempting state and municipal securities from registration.

Appended to the report are brief references to certain state court decisions rendered and state legislation enacted during the year. Only decisions and legislative enactments considered to be of general interest to the municipal trade or of special significance locally are included.

Respectfully submitted,

Municipal Securities Committee:

Walter W. Craigie, *Chairman;* H. Wilson Arnold; Robert H. Atkinson; Dana F. Baxter; Orlando S. Brewer; Alan K. Browne; Woodward Burgert; Hagood Clarke; John W. Clarke; Horace L. Commer; Cecil R. Cummings; Newman L. Dunne; W. Neal Fulkerson, Jr.; Herbert V. B. Gallager; C. Cheever Hardwick; W. Paul Harper; John G. Heimerdinger; William C. Jackson, Jr.; Elmus M. Kalloch; John F. Kelsey; David F. Lawrence; Franklin Maroney; Andrew S. Mills; William H. Morton; Darnall Wallace; Harry H. White; Merrill Morong.

*The award was made to Ira Haupt & Co., New York City, and was accepted on behalf of the firm by Bertram M. Goldsmith, a partner.

Initiative in Welfare State

By ROGER W. BABSON

Mr. Babson gives examples of loss of initiative in the so-called "Welfare State," and says great issue of our times is to find public officers who will give us the social climate necessary for development of individual initiative, self-reliance, self-betterment and self-achievement.

Three stories from different sources and from different parts of the world suggest what happens to initiative in the "Welfare State."

Roger W. Babson

A friend of one of my associates was travelling in Europe recently. He found himself in a railroad station in the Russian Zone of Austria with his wife critically ill. He immediately requested the station master to summon a doctor. The station master did so but in a few minutes returned to say excitedly, "The doctor says he won't come unless he's paid." The friend replied, "Of course I'll pay, but why do you ask?"

The doctor when he arrived pointed out that they had a system of socialized medicine, that he had already seen more than his quota of patients for the day, and that more calls meant no more for him than additional marks in the book. He, therefore, would make no more calls unless he was paid in advance! Here is regimentation in medicine. Even the professional man, long an example of initiative and resourcefulness, is deprived of his heritage.

Two More Examples

We don't have to go to Russian satellites or to Britain to find examples of loss of initiative. Recently, the director of personnel of one of the largest automobile manufacturing concerns visited Babson Institute. We were discussing pros and cons of labor unions. This particular individual was an enlightened person and pointed to many of the good things that the labor unions have done for both the worker and the automotive industry. But on one point he really exploded. Said he, "I can never forgive any union for killing the initiative of the man who wants to do eight hours' work in six or to do it better than another worker."

This past summer, a neighboring school teacher had an unfortunate experience. He was mowing his lawn, and his little girl of nine was helping him rake the grass. Other children in the neighborhood came along and asked the little girl, "How much are you getting?" When she replied that she was raking the grass because she liked to help her daddy and that she wasn't getting anything but a lot of fun, her playmates chastised her with a sharp, "Sucker! What a dope you are!" The sequel to the story is that the father was so perturbed about the general attitude of the parents and children in that particular neighborhood that he moved away.

The Great Issue of Our Times

What has happened to those home-spun qualities of character, initiative, drive, and resourcefulness that made this country so great? The childish notion that someone will take care of us without our making any effort ourselves is fantastic economics. Individual initiative is the foundation stone of security, health and prosperity. The present attitude to do and give as little as possible will ultimately bring on depression and unemployment.

The greatest issue before the American people today is to find public officers who will give us the social climate necessary for the development of individual initiative, self-reliance, self-betterment, and self-achievement. Felix Morley, recently writing in "Nation's Business," stated our problem in plain words when he said: "The theory that men owe it to themselves to win their way has been forgotten. Instead of believing that all men are worthy of respect . . . by virtue of their individual efforts . . . we tend to say that all men are worthy of support by virtue of political action."

Joins Thomson-McKinnon

(Special to THE FINANCIAL CHRONICLE)

MIAMI, Fla. — Robert E. Newman is now affiliated with Thomson & McKinnon, Shoreland Building.

With State Bond & Mtg.

(Special to THE FINANCIAL CHRONICLE)

NEW ULM, Minn.—Omar A. Williams has joined the staff of State Bond & Mortgage Co., 26½ North Minnesota Street.

Continued from page 25

Canada's Progress and Prosperity

there will yet remain an estimated surplus of $15 million, the budget points out that on a full year's basis our defense and related expenditures, as at present envisaged, will probably require about $1,000 million. Assuming no significant change in other governmental outlays this would suggest a total budget of approximately $3,000 million for the year ending March 31, 1952. Against this, the annual yield from the revised tax structure is estimated at $2,800 million, thus suggesting that if Canada is to continue with a "pay-as-you-go" policy, further increases in taxation must be considered a possibility when the regular budget comes down in the spring.

Banking

It is natural that the unprecedented high level of business activity to which I have already made reference should find reflection in our banking statistics. According to the return of the chartered banks to the Minister of Finance, total bank deposits, including interbank balances, as at Sept. 30, 1950, amounted to more than $8,569,000,000, a higher figure than had ever, hitherto, been reached. Of this total, demand deposits stood at $2,708,000,000, savings deposits at $4,581,000,000 deposits on behalf of the Government of Canada $132,000,000 and Provincial Government deposits were $173,000,000. The figure for savings deposits represented an increase of $38 million over that of the previous month and established an all-time high for deposits in this category. Total assets of the chartered banks at the same date exceeded $9,161,000,000, which represents an increase of more than 17% since 1946. While the holdings of chartered banks in Government of Canada and Provincial Government obligations, at $3,610,000,000, shows a small decline in the same four-year period, commercial and other loans, excluding those to Provincial Governments, and school and municipal authorities, had increased by more than 50% and at the same date had reached a total of more than $2,796,000,000. The high level of bank deposits, together with the increase in commercial loans and the decline in bank holdings of government obligations are indicative that Canada has been able, since the war, to meet the cost of government without retarding an expanding flow of public funds into the development of industry and natural resources.

Security Markets

To date this year there have been three factors which have strongly influenced the Canadian Government bond market. In chronological order they are:

(1) The 1950 Government of Canada Refunding Loan.

(2) The open market operations of the Bank of Canada in selling government bonds to finance the purchase of United States dollars received in payment for Canadian domestic bonds.

(3) The freeing of the Canadian dollar.

During the earlier part of the year, trading in Government Bonds was considerably lighter than during 1949. This inactivity was due in part to the lack of interest in Government Bonds by the chartered banks. During this period there was some pressure on their cash reserves due to Government withdrawals of deposits and generally speaking the banks were either inactive or sellers of bonds in moderate volume. A further factor which affected market activity at this time was the imminence of a large Government refunding operation, and large institutional investors adopted a "wait and see" attitude.

In mid-May the terms of a $745,000,000 Refunding Loan were announced as being four-and-a half year 2% and eighteen-year 2¾% bonds both being priced at slight discounts off par. This was the first long-term financing since the ninth Victory Loan which was issued in 1945 while Canada was still at war. The new issue was an unqualified success, both maturities being heavily oversubscribed, and within a short period of time the bonds were trading at a premium over the issue prices.

The success of the new issue coupled with a new instrument for investment, the new long-term bonds being the only internal Canada bonds carrying a 2¾% interest rate, stimulated activity and there was heavy switching of maturities by institutions in a rising market.

In June and July this activity and strength was further stimulated by the fact that United States investors began to purchase Canadian securities in anticipation of a change in the foreign exchange rate for Canadian dollars. However, the purchase of United States dollars received in payment for bonds exported to that country had to be financed and to this end the Bank of Canada commenced an open market operation of selling bonds. Under its charter the Bank of Canada is limited as to the proportion of investments that it may hold in long-term bonds. Consequently, the short and medium term maturities bore the brunt of the selling and we saw an unusual situation prevailing in that the market for short and medium term maturities was selling down while what had become a heavy demand from the United States for longer term maturities was so strong that the market for them moved steadily higher.

In September the Canadian dollar was freed, and this action was immediately reflected in the market for Government bonds. The heavy purchasing by United States investors that had been in evidence for some time became more normal. While there was some selling from the United States it was not heavy, and the market seems quite confident that large amounts of the bonds originally bought on a semi-speculative basis, may be retained as sound, long-term relatively high yielding investments. This has been the case in the past, where a change in the rate for the Canadian dollar did not bring in the liquidation that had been anticipated, but the threat is still there.

Since the change in the dollar rate the tendency in the Government bond market has been downward with continued pressure on short and medium term issues. While no official statement has been made, it would appear that the Government would not be reluctant to see higher interest rates as a counter-inflationary measure. The open market operations referred to had the effect of hardening short-term interest rates and in addition to this the rates on six-months Deposit Certificates and Treasury notes were raised from ¾ to ⅞ of 1%. At the same time, the rate for three-month Treasury Bills rose from 0.513% to 0.62%.

The market for Provincial Government Bonds has generally followed the pattern of that for Government of Canada bonds. The total of new Provincial issues, including guarantees, to Oct. 30 this year is $374,322,000, as compared with $455,417,000 for 1949. The Province of Ontario has borrowed an amount of $160,000,000 this year, which is more than any other one Province. However, of this amount $110,000,000 was for hydro-electric power development, which was urgently required for industrial needs. No heavy Provincial borrowings are anticipated for the balance of this year. In practically all cases offerings of new Provincial issues were favorably received by the public. The very few exceptions were where the bonds were slightly overpriced and the underwriters were not able to undo their liabilities immediately as was the case in most instances.

The volume of new financing by municipalities has been heavy, the total being $148,942,734 to Oct. 30, 1950, as compared with $154,967,284 for 1949. The steady growth of Canadian municipalities coupled with pent-up demand during the war for basic facilities plus new postwar housing, has necessitated heavy expenditures of capital for new and improved services and schools. A considerable portion of the new money raised has been for the latter purpose. Since the beginning of the year the level of the market for municipal bonds has declined slightly due in part to lower levels for Government bonds generally and in part to the heavy volume of new financing by the municipalities.

Stock Markets

The Canadian markets in general have followed the pattern of the American market in 1950. In the first quarter of the year there were no significant happenings. Stocks remained at or around their 1949 highs in relatively light trading. Earnings of Canadian companies for the first quarter

were higher than anticipated. Prospects for the balance of the year indicated that these levels of earnings would be as good or improved. These conditions and a quiet international scene were the underlying factors for an up-turn in stock prices and an expanded volume. As was the case with your markets, the invasion of Korea brought about a sharp break in the market. This break continued for about three weeks as the American forces engaged in the struggle. Since that time the markets have resumed their upward tendency, probably on the premise of continued favorable business conditions, coupled with the inflationary pressures foreseen as a result of an accelerated defense program. Following the freeing of the Canadian dollar on Sept. 30, Canadian stocks were particularly strong. In recent weeks there has been a marked degree of uncertainty in the markets with the odds very definitely on the upside, but strong warnings are being experienced from week to week.

Throughout the year the stocks of gold producing companies have run counter to this generally higher trend. The Toronto Stock Exchange Index of 20 gold stocks has dropped from 105.30 to their current level of 76.30. This, of course, has been largely due to the fixed price of gold and the rising costs of production which have narrowed profit margins.

The shares of companies engaged in oil exploration in Western Canada have recorded substantial advances in the past two or three years. In recent months, however, these advances have with some exceptions leveled off. I will refer to the reasons for this later. The Toronto Stock Exchange Index of 15 Western Oils moved from 64.13 at the end of December, 1949, to 90.16 before Korea and is currently at the 82.10 level.

Shares of companies engaged in the pulp and paper industry have been in active demand throughout the year. These stocks have been very popular in our markets as a result of a recovery from the difficult experiences of the industry in the 1930's.

The expansion of trading volume on the Montreal and Toronto Stock Exchanges in the past year has been impressive. In the last quarter of 1949 the combined volume of these two exchanges was running at the rate of 25 to 30 million shares per month. The volume for October for this year was well over 50 million shares.

Exchange

Probably the outstanding event in Canadian economic evolution in 1950 was the action taken by the Government through the action of the Bank of Canada in ending the fixed exchange relationship between the Canadian and the United States dollar in September. Somewhere around mid-year, American speculative buyers seemed suddenly to decide that Canada was even a better long-term investment than had been realized and that the Canadian dollar was too cheap.

The result was an unprecedented inflow of capital into Canada. During the months of June, July, August and September, 1950, our gold and United States dollar reserves rose by $535,000,000 to reach $1,790,000,000. More than half of such inflow came in the month of September. Practically all of this capital came from the United States but there is ample evidence that there was strong intermixture of other than United States capital, although it is estimated that the majority of it was strictly of United States origin.

After all the talk of Canada's dollar problem and the useful role of United States capital in previous years, this might have seemed a welcome development, but, for us, under existing circumstances, such a huge influx of outside money—some of it clearly coming merely for the ride—had its disturbing aspects. The very size of the movement intensified Canadian inflationary pressures and complicated our problem of dealing with them. Since the funds were of a capital nature, not earned by trading or received as income, they assumed the unhappy role of involuntary borrowing on our part. Further, the inflow of funds was effected through the purchase of Canadian securities already outstanding on the market rather than by direct investment in Canadian plant and equipment, which has been proceeding for so long a period at a much more even pace. This involuntary building up of our capital liabilities to the United States without commensurate addition to our productive and export capacity was embarrassing in itself, but so long as the Canadian dollar looked like a currency that could move in only one direction, there was no telling to what extremes the process could continue. Obviously action was necessary, but it was a question as to whether the partial return to parity would stop the inflow, whether parity could be held and whether such a step would be in the bast interests of Canada and her relations with the rest of the world and particularly the United States. The decision that was taken has been generously characterized as "wise and courageous," and fortunately, to date at least, Canada has received nothing but commendation on her decision to break out of the compulsion of fixed rates and to leave the Canadian dollar to find its own level as determined by day-to-day influences.

Of course, at the same time, it was necessary in feeling our way, to retain the emergency restrictions against United States imports, which still remain as a legacy of our difficulties in 1947, but it has been announced that these will virtually be eliminated by Jan. 1 next. As part of the same pattern, the Canadian restrictions on the availability of United States dollars for Canadian tourist travel were greatly liberalized to provide for reasonable requirtments. We still retain, however, all the mechanism of exchange control and with the extreme uncertainties in the international outlook we feel that there is a good case for their retention, but we may at least hope that the elimination of this impediment to completely free movement of capital may come in the not too distant future.

On the matter of capital influence, I think that there is every reason to expect that United States investment funds will continue to come to Canada, but the fact that the Canadian dollar is no longer a one way bet, will tend to moderate the movement. It would seem that time and the logic of economic forces are on the side of Canadian growth and a strengthening of the Canadian balance of payments position.

Oil

The discovery of oil in substantial quantities in the Province of Alberta in 1947 is regarded by many Canadians as one of the milestones of our economic history. Exploration is going on in several widely separate areas but the Prairie Provinces and particularly Alberta are the focus of attention. Since 1947 two major fields have been developed, Leduc and Redwater. Several other areas, which we confidently expect to prove of major importance, are still under investigation and drilling. These discoveries were the result of exploration programs that had been going on for many years. Imperial Oil for example has stated that it had spent 23 million and drilled 111 dry holes in Alberta before oil was found at Leduc. Since then the already high level of exploration has been further accelerated. It has been estimated that there are currently 117 geophysical parties operating in the Prairie Provinces and 138 drilling rigs. About 100 million dollars was spent on exploration in 1949 and it is estimated that another 150 million will have been spent by the end of 1950.

It has just been announced in

Continued on page 42

Continued from page 41

Canada's Progress and Prosperity

the Press than 803 wells have been drilled in the first 10 months of this year, resulting in 603 oil producers, 36 gas wells and 164 dry holes, and that by Oct. 30 there were 1,862 oil producing wells and about 260 gas wells in Western Canada.

The average daily production which was slightly under 19,000 barrels in 1947, rose to 30,000 barrels in 1948, and to something over 55,000 barrels in 1949. From January to April, 1950, the average was just over 66,000 barrels.

We have been having problems this year with too much production pending the completion of additional refinery capacity in the Prairie Provinces and transportation. The average for 1950 is expected to reach about 75,000 barrels per day of allowable production, and the estimated daily average production for the week ending Nov. 4 is at something over 100,000 barrels. Present potential is estimated to double this figure.

Proven reserves are now estimated at about 1½ billion barrels, and competent observers are confident that eventual reserves are at least several times that.

The key to the problem of this quick development of such large production is, of course, markets and transportation.

It is estimated that Western Canada, particularly the Prairie Provinces, is using about 85,000 barrels per day, and that refinery capacity of about 100,000 barrels per day will be available in Western Canada in 1952.

The new Interprovincial Pipeline, running from Edmonton to Superior, Wisconsin, by way of Moosejaw, Regina and Gretna, Manitoba, and connected to Winnipeg by a line owned by the Imperial Oil Limited is now in partial operation, and is giving considerable relief. The capacity of this 16/20 inch line is expected to be about 135,000 barrels per day. In 1951, in addition to feeding the refineries at Regina, Moosejaw and Winnipeg, a substantial proportion will go to the Western Ontario market, with something left over probably for sale in the United States.

Additional transport facilities will have to be found but these will depend upon where markets are available, and in what quantity, but the pressure of production in Alberta will probably continue to be great.

Along with the oil development, very substantial reserves of natural gas have been proven, and markets will have to be found for it.

It is extremely difficult to assess as yet the impetus of such a major change in the economy of the Prairie Provinces, where the economy to date has been almost entirely agricultural.

Hydro-Electric Power

One of Canada's outstanding assets is a large volume of hydro-electric power. Very substantial developments have taken place since 1939, particularly in the Provinces of Quebec, Ontario and British Columbia.

Canada's total turbine installation in 1939 amounted to 8,289,000 h.p. and had risen by 1949 to 11,615,000 h.p. In addition over 2,538,550 h.p. is now under construction for completion by 1952.

The Province of Quebec at the end of 1939 had installed capacity of 4,350,000 h.p. and by the end of 1949, 6,132,000 h.p. There is presently under construction a further 688,550 h.p. which will bring the total turbine installation at the end of 1952 to 6,819,600 h.p.

In the Province of Ontario at the end of 1938, there was installed 1,519,400 h.p. As at Oct. 31, 1950 this figure had risen to 2,525,800 h.p. In addition to the development of 1,131,000 h.p. of water power now under construction, The Hydro-Electric Power Commission of Ontario is proceeding with the building of seven thermo-electric plants which initially will have a total capacity of 642,000 h.p., bringing the Ontario capacity up to 4,298,000 h.p. upon completion of the present construction program by 1952.

The installed capacity of British Columbia at the end of 1939 was 738,000 h.p. and by the end of 1949 equaled 1,236,000 h.p. At present there is under construction 77,000 h.p. to be completed by 1952. The Province is hoping that as a result of accelerated demand for aluminum the project now being investigated in British Columbia by Aluminum Company of Canada, Limited will be speeded up. If this development be carried through, a further 1,500,000 h.p. of electric energy might be added to the facilities of the Province.

Iron

With the completion of primary financing of the Labrador iron project, it is understood that work is proceeding apace. Contracts have been made for the commencement of construction of over 400 miles of railway to join the Quebec-Labrador ore deposits with the St. Lawrence River. In the Burnt Creek area where the most active prospecting and development have been carried out, proven reserves of more than 400,000,000 tons have been reported. These reserves are considered sufficient to support the shipment of 10,000,000 tons of ore a year over a long period, with future possibilities ranging to an annual output of more than twice that amount.

Titanium

The titanium iron project further down the St. Lawrence River is nearing completion, although full scale production of 550,000 tons annually is not expected until 1952. The Allard Lake deposits of ilmenite, said to be the world's largest, are estimated at 125,000,000 tons containing 32% titanium oxide and 40% high grade iron. A problem which has not yet been entirely successfully solved is that of the extraction of pure titanium from the oxide on a commercially economic basis.

Mining

Competent observers believe that the exploration and development of Canada's mineral potential has been going on, in 1950, at a greater rate than ever before experienced, and perhaps with greater potentialities.

A discovery of important copper properties in the Gaspe Peninsula, Province of Quebec, and the prospects for very largely increased production of lead, zinc and silver from several different properties now under exploration and development in the Northwest Territories, are outstanding highlights. A very important gold development in the Yellowknife district has come into production this year and confirmation has been obtained of previous estimates of ore reserves and values. This development shows considerable promise of further expansion. It has also been announced that substantial deposits of uranium bearing material have been found in several parts of Northern Canada.

Agriculture

No review of Canadian conditions is complete without reference to Canada's wheat crop. Frost in the latter part of August of this year not only reduced the volume but the quality of what promised to be one of Canada's largest wheat harvests. It had been hoped that the crop would be somewhere in the neighborhood of 540,000,000 bushels, but the latest figures indicate that that figure will be down about 20%, and that there has been a considerable lowering of quality through frost damage. On the whole the over-all outlook on agricultural production for 1950 seems to indicate that the volume was greater, the quality lower but the net return to the farmer will compare quite favorably with 1949.

Pulp and Paper

(a) **Newsprint**—Of equal importance in our economy is the pulp and paper industry. It is, in fact, first among our industries in gross value of production, in capital invested, and in salaries and wages paid to those engaged in it. By far, the greater proportion of the industry is directed to the production of newsprint and is responsible for 60% of the world output of this commodity. At the end of 1938, the annual capacity of Canadian newsprint mills was 4,535,900 tons with the actual production equalling 2,893,000 tons. In the 10-year period, from 1939 to 1949, the actual production of newsprint had increased 63% to an output of 5,176,000 tons in the latter years, representing a dollar value of about $430,000,000.

For the first nine months of this year, newsprint production has been higher than for any similar period of any year and the estimates for the full year 1950 indicate an aggregate of approximately 5,271,000 tons.

It is an interesting fact that the increase in the output of newsprint from Canadian mills since the war exceeds the present entire combined newsprint output of Great Britain, Norway, Sweden and Finland.

(b) **Other Pulp and Paper Products**—As a result of the growth of its markets, the pulp and paper industry has substantially improved its productive capacity in comparison with prewar levels. From 1939 to 1949, annual production, excluding newsprint, has been increased by about 1,500,000 tons to over 3,000,000 tons, while the dollar value in that period has risen from about $87,000,000 to about $400,000,000. The demands for pulp and paper products, excluding newsprint, this year has been reflected by record production levels with a six months output of about 1,650,000 tons.

Competition for the use of our wood pulp resources for fine grades of paper and for dissolving pulps for use in the synthetic fibres, and in the chemical and plastic industries may well divert the use of some pulp from the production of newsprint because of the demands of these rather more profitable uses of one of Canada's most valuable resources. In fact, in the last five years, 10 mills have been constructed or re-opened for the production of pulp, the output from none of which is being used for newsprint.

It is quite evident that 1949 and 1950 have been very important years for Canada, and that postwar development is proceeding in a pattern, with certain important exceptions, which in many respects seems to parallel the development in the United States following World War I.

We are hopeful that our enthusiasm is being tempered with judgment and caution.

We are fortunate in having such close relationships with the United States, which enable us to take advantage of your experience, both industrially and politically.

It has been very helpful to have been able to interest United States investors to such a large extent in our various undertakings, some of which are of such magnitude that they need a great deal of outside experience, as well as capital, in order to try and avoid problems that could develop later on.

We face the future with confidence as well as caution, and feel that if we do so, we can give a good account of ourselves.

We sincerely hope that we may be able to continue to work as closely together, to our mutual advantage, as we have done over the years.

Respectfully submitted,

Canadian Securities Committee

F. Douglas Chapman, *Chairman;* Frederick B. Ashplant; Russell D. Bell; W. T. K. Collier; R. Winfield Ellis; Herbert A. Hutchinson; W. H. R. Jarvis; Edward S. Johnston; A. Northey Jones.

Continued from page 21

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CURREY, BROWNLEE O.
Equitable Securities Corporation, Nashville

CURTIS, ARTHUR W.
A. G. Becker & Co. Incorporated, Chicago

CUSACK, WILLIAM C.
The Keystone Company of Boston, Boston

CUTHBERTSON, FRED A.
First National Bank of Arizona, Phoenix

CUTTER, FRED C.
William N. Edwards & Co., Fort Worth

DALENZ, JOHN McG.
Calvin Bullock, New York

DARLING, E. MERRILL*
Kidder, Peabody & Co., Boston

DAVIDS, MARK*
Lester & Co., Los Angeles

DAVIS, De WITT
Welsh, Davis & Co., Chicago

DAVIS, JOSHUA A.
Reynolds & Co., New York

DAVIS, RALPH W.*
Paul H. Davis & Co., Chicago

DAY, JAMES E.
Midwest Stock Exchange, Chicago

DAYTON, Jr., JOHN W.
Clark, Dodge & Co., New York

DEAN, HOWARD B.
Harris, Upham & Co., New York

De BARY, MARQUETTE
F. S. Smithers & Co., New York

DECKER, O. PAUL*
American National Bank & Trust Co. of Chicago, Chicago

DeHAVEN, WALTER T.*
DeHaven & Townsend, Crouter & Bodine, Philadelphia

DEMPSEY, L. WALTER*
B. J. Van Ingen & Co. Inc., New York

DESCARTES, S. L.
Government Development Bank, Puerto Rico

DeSTAEBLER, EUGENE L.
Sills, Fairman & Harris, Incorporated, New York

DEWAR, HAL H.*
Dewar, Robertson & Pancoast, San Antonio

DIXON, JOSEPH W.*
American Securities Corporation, New York

DOMINICK, II, BAYARD
Dominick & Dominick, New York

DONNALLY, JESSE P.*
Peoples National Bank, Charlottesville

DOOLITTLE, ROY W.*
Doolittle & Co., Buffalo

DORBRITZ, ERNEST O.
Moore, Leonard & Lynch, Pittsburgh

DOUGHERTY, A. WEBSTER
A. Webster Dougherty & Co., Philadelphia

DOWNEY, NORMAN S.
Union Securities Corporation, New York

DROBNIS, GEORGE J.
69 W. Washington Street, Chicago

DuBOIS, ALLEN C.*
Wertheim & Co., New York

DUNN, EDWARD K.
Robert Garrett & Sons, Baltimore

*Denotes Mr. and Mrs.

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Auchincloss, Parker & Redpath, Washington

DUNN, STEWART A.*
C. J. Devine & Co., Inc., New York

DUNNE, NEWMAN L.*
Robert W. Baird & Co. Incorporated, Milwaukee

DURYEA, WRIGHT*
Glore, Forgan & Co., New York

DUVAL, GORDON B.*
Guaranty Trust Company of New York, New York

DYKES, VICTOR
Bradschamp & Company, Houston

EATON, Jr., CHARLES F.
Eaton & Howard, Incorporated, Boston

EDWARDS, JOHN H.*
R. J. Edwards, Inc., Oklahoma City

EDWARDS, WILLIAM N.*
William N. Edwards & Co., Fort Worth

EGAN, JOHN F.
First California Company, San Francisco

ELKINS, Jr., GEORGE W.*
Elkins, Morris & Co., Philadelphia

ELLSWORTH, SHERMAN
Wm. P. Harper & Son & Co., Seattle

ELWORTHY, MARK C.
Elworthy & Co., San Francisco

EMERSON, SUMNER B.
Morgan Stanley & Co., New York

EMERSON, WILLARD I.*
Hemphill, Noyes, Graham, Parson & Co., New York

EMPEY, LESTER H.
American Trust Company, San Francisco

EVANS, CLEMENT A.
Clement A. Evans & Company, Inc., Atlanta

EVANS, THOMAS W.
Continental Illinois National Bank & Trust Co. of Chicago, Chicago

EVERETT, F. DEWEY
Hornblower & Weeks, New York

FAHEY, LESLIE J.
Fahey, Clark & Co., Cleveland

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The First Boston Corp., Chicago

FAIRMAN, Jr., FRED W.
Sills, Fairman & Harris, Incorporated, Chicago

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City National Bank & Trust Co., Kansas City

FAUSET, JOSEPH H.*
Fauset, Steele & Co., Pittsburgh

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Hooker & Fay, San Francisco

FAY, NATHAN C.*
Nathan C. Fay & Co., Portland, Maine

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Distributors Group, Incorporated, New York

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Glore, Forgan & Co., Chicago

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Singer, Deane & Scribner, Pittsburgh

FISHMAN, HENRY M.
Atwill and Company, Miami

FITZGERALD, Jr., WALTER J.
Blunt Ellis & Simmons, Chicago

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Hanrahan & Co., Worcester

FLYNN, GEORGE T.
Hornblower & Weeks, New York

FOLGER, JOHN CLIFFORD
Folger, Nolan, Incorporated, Washington

FORDON, RALPH
Fordon, Aldinger & Co., Detroit

FORREY, GEORGE C.*
Indianapolis Bond & Share Corporation, Indianapolis

FREDERICK, PAUL O.*
Paul Frederick & Company, New York

FRICK, Jr., BENJAMIN F.
Stix & Co., St. Louis

FRIDLEY, EARL G.
Fridley & Hess, Houston

FRIEND, ARTHUR S.*
Folger, Nolan, Incorporated, Washington

FROST, Jr., HARRISON C.
Hayden, Miller & Co., Cleveland

FULKERSON, Jr., W. NEAL*
Bankers Trust Company, New York

FULTON, WALLACE H.
National Association of Securities Dealers, Washington

FURLONG, THOMAS R.
Chicago Tribune, Chicago

GAERSTE, JOHN L.
Cooley & Company, Hartford

GAIRDNER, JAMES A.
Gairdner and Company, Toronto

GALLAGER, HERBERT V. B.
Yarnall & Co., Philadelphia

GALLAGHER, FRANCIS P.
Kidder, Peabody & Co., New York

GANDER, MacLEAN
Dominick & Dominick, New York

GARLAND, CHARLES S.
Alex. Brown & Sons, Baltimore

GARRETT, ROBERT H.
The Northern Trust Company, Chicago

GATCHELL, EARLE
Hayden, Stone & Co., New York

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Clark, Dodge & Co., New York

GEORGE, EDWARD C.
Harriman Ripley & Co., Incorporated, Chicago

GERNON, FRANK E.
Carl M. Loeb, Rhoades & Co., New York

GEYER, GEORGE* and Terry
Geyer & Co., Inc., New York

GIBBONS, Jr., GEORGE B.
Geo. B. Gibbons & Company, Inc. New York

GILBREATH, Jr., W. SNYDER
First of Michigan Corporation, Detroit

GILLIES, GEORGE J.
A. C. Allyn and Company, Inc., New York

GLASSMEYER, EDWARD
Blyth & Co., Inc., New York

GLAVIN, CHARLES C.
The First Boston Corp., New York

GLENN, JOHN F.*
Courts & Co., Atlanta

GLOVER, W. WAYNE*
California Bank, Los Angeles

GLYNN, Jr., JOSEPH A.
Blewer, Heitner & Glynn, St. Louis

GOLDSMITH, BERTRAM M.*
Ira Haupt & Co., New York

GOLDSMITH, CLARENCE E.
White, Weld & Co., New York

GOODHUE, III, FRANCIS
Calvin Bullock, Philadelphia

GOULD, EDSON
Arthur Weisenberger & Co., New York

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Johnston, Lemon & Co., Washington

GRA., EDWARD C.
New York Stock Exchange, New York

GREEN, SHELDON R.*
The Chase National Bank of the City of New York, New York

GREGORY, GEORGE M.*
Gregory & Son, Incorporated, New York

GREGORY, Jr., WILLIAM H.*
Bonner & Gregory, New York

GRUBBS, M. M.
Grubbs, Scott & Company, Inc., Pittsburgh

GRUNEBAUM, KURT H.*
New York Hanseatic Corporation, New York

GRUNER, GEORGE J.
Lee Higginson Corporation, New York

GUNN, M. CARTER
Scott, Horner & Mason, Inc., Lynchburg, Va.

HAGAN, Jr., JOHN C.*
Mason-Hagan, Inc., Richmond

HAGEMANN, E. KENNETH*
G. H. Walker & Co., St. Louis

HAIGHT, Jr., C. M.
Tripp & Co., Inc., New York

HALE, EDWARD E.*
Vance, Sanders & Company, Boston

HALL, EDWARD B.
Harris, Hall & Company, Chicago

HALLORAN, ROBERT K.*
Robert Winthrop & Co., New York

HALLOWELL, HENRY R.*
Hallowell, Sulzberger & Co., Philadelphia

Continued on page 44

Continued from page 43

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HAMMOND, WILLIAM H.*
Braun, Bosworth & Co., Incorporated, Chicago

HAMPTON, PERCY R.
Bell, Gouinlock & Company, Limited, Toronto

HANCOCK, ROY W.*
Hancock, Blackstock & Co., Atlanta

HANRAHAN, PAUL B.*
Hanrahan & Co., Worcester, Mass.

HANSEL, DOUGLAS*
Shields & Company, New York

HANSON, MURRAY
Investment Bankers Association, Washington

HAPP, WILLIAM A.
Globe-Democrat, St. Louis

HARDER, LEWIS B.*
Harris, Upham & Co., New York

HARDER, F. WILLIAM
Allen & Company, New York

HARDIN, JOHN S.
Hirsch & Co., Baltimore

HARDING, CHARLES B.
Smith, Barney & Co., New York

HARKNESS, ROBERT B.
Estabrook & Co., Boston

HARPER, W. PAUL
The Boatmen's National Bank of St. Louis, St. Louis

HARRIS, DAVID J.
Sills, Fairman & Harris, Incorporated, Chicago

HARTER, ROBERT L.
Sutro & Co., San Francisco

HASSMAN, ELMER G.
A. G. Becker & Co., Chicago

HASTINGS, BYRON*
The Parker Corporation, Chicago

HATCHER, LLOYD B.
Trust Company of Georgia, Atlanta

HATCHER, Jr., ROBERT L.
The Chase National Bank of the City of New York, New York

HAUSER, A. H.*
Chemical Bank & Trust Co., New York

HAWES, HARDIN H.
Harris Trust & Savings Bank, Chicago

*Denotes Mr. and Mrs.

HAYDEN, DONALD W.
Baumgartner, Downing & Co., Baltimore

HAZELWOOD, CHARLES F.
Blair, Rollins & Co., Incorporated, New York

HEFFERNAN, PAUL*
New York Times, New York

HEIMERDINGER, JOHN G.
Walter, Woody & Heimerdinger, Cincinnati

HELLER, WALTER S.*
Heller, Bruce & Co., San Francisco

HEMBURGER, HENRY
Commercial & Financial Chronicle, New York

HENDERSHOT, RALPH*
World-Telegram & Sun, New York

HENDERSON, THEODORE C.
T. C. Henderson & Co., Des Moines

HENSHAW, EDWARD C.
William R. Staats Co., San Francisco

HESS, WILBUR E.*
Fridley & Hess, Houston

HEWITT, CHARLES L.*
Francis I. du Pont & Co., New York

HILDRETH, WILLIAM S.*
Peoples National Bank, Charlottesville

HILL, ROBERT C.*
Hill, Richards & Co., Los Angeles

HOBBS, Jr., WILLIAM G.
Russ & Company, Inc., San Antonio

HOLLAN, JOHN V.
Barr Brothers & Co., New York

HOLMES, ELAINE
Investment Bankers Association, Washington

HOLT, ROBERT L.
Blair, Rollins & Co. Incorporated, Chicago

HOPKINS, JOHN E.
J. P. Morgan & Co., Incorporated, New York

HOPKINSON, Jr., EDWARD
Drexel & Co., Philadelphia

HORNBLOWER, II, HENRY*
Hornblower & Weeks, Boston

HORNER, EDWIN B.*
Scott, Horner & Mason, Inc., Lynchburg

HORNING, BERT H.
Stifel, Nicolaus & Company, Incorporated, St. Louis

HORNOR, DeWITT
The National City Bank of New York, New York

HORTON, ARTHUR
Penington, Colket & Co., Philadelphia

HORTON, LEONARD M.*
Aubrey G. Lanston & Co., Inc., New York

HOUSTON, Jr., JOSEPH C.*
Calvin Bullock, Chicago

HOWE, JAMES M.
Farwell, Chapman & Co., Chicago

HOWE, L. L. J.
John Nuveen & Co., Chicago

HOYE, WILBUR G.
Chas. W. Scranton & Co., New Haven

HUDSON, FRED W.*
Ball, Burge & Kraus, Cleveland

HUGHES, ALBERT R.*
Lord, Abbett & Co., New York

HUGHES, W. SHANNON
Raffensperger, Hughes & Co., Inc., Indianapolis

HUGHES, WILLIAM S.*
Wagenseller & Durst, Inc., Los Angeles

HULME, MILTON G.*
Glover & MacGregor, Inc., Pittsburgh

HUNT, E. JANSEN
White, Weld & Co., New York

HURRY, HARRY M.*
Bingham, Walter & Hurry, Pasadena

HUTTLINGER, KURT J.
F. P. Ristine & Co., Philadelphia

HUTTON, Jr., JAMES M.
W. E. Hutton & Co., Cincinnati

IGLEHART, JOSEPH A. W.
W. E. Hutton & Co., New York

INGLIS, JOHN
Blyth & Co., Inc., San Francisco

JARDINE, Jr., J. EARLE*
William R. Staats Co., Los Angeles

JENKS, MORTON
Jenks, Kirkland & Co., Philadelphia

JENNETT, EDWARD J.
The First National Bank of Chicago, Chicago

JOHANIGMAN, STERLING E.
The Milwaukee Company, Chicago

JOHNSON, HOLGAR J.*
Institute of Life Insurance, New York

JOHNSON, JOSEPH T.
The Milwaukee Company, Milwaukee

JOHNSON, RUPERT H.*
R. H. Johnson & Co., New York

JOHNSON, THOMAS M.*
Johnson, Lane, Space & Co., Inc., Savannah

JOHNSON, WILBUR E.*
Johnson & Johnson, Pittsburgh

JOHNSTON, EDWARD S.*
Wood, Gundy & Co., Inc., New York

JOHNSTON, PAUL A.
Barron's Publishing Co., New York

JONES, CHARLES F.*
First Securities Corporation, Durham

JONES, EDWARD D.
Edward D. Jones & Co., St. Louis

JONES, GRAHAM*
Cooley & Company, Hartford

JONES, JUNE S.*
Atkinson-Jones & Co., Portland, Ore.

JONES, Jr., THOMAS H.
T. H. Jones & Company, Cleveland

JOSEPH, HERMAN B.*
T. H. Jones & Company, Cleveland

JUST, PAUL A.*
Television Shares Management Co., Chicago

KALL, CARL J.
First National Bank of Minneapolis, Minneapolis

KAUFMAN, C. G.*
Shields & Company, Chicago

KENNY, JOHN J.*
J. J. Kenny Co., New York

KENT, RUSSELL A.
Bank of America, N.T.& S.A., San Francisco

KERR, WILLIAM D.
Bacon, Whipple & Co., Chicago

KEYSERLING, LEON H.
Council of Economic Advisers, Washington

KIMBALL, CHARLES E.
Distributors Group, Incorporated, St. Louis

KING, CARMAN G.
Fairclough & Company, Ltd., Toronto

KING, JOSEPH H.*
Union Securities Corporation, New York

KING, ROSS E.
R. H. Johnson & Co., New York

KING, WILLIAM P.
King, Quirk & Co., Incorporated New York

KING, WILLIAM T.*
Rockland-Atlas National Bank of Boston, Boston

KIRKLAND, SAMUEL N.
Jenks, Kirkland & Co., Philadelphia

KIRKPATRICK, STEWART R.
Kirkpatrick-Pettis Co., Omaha

KNEASS, GEORGE B.
Philadelphia National Bank, Philadelphia

KNIGHT, FRANCIS M.
Continental Illinois National Bank & Trust Co. of Chicago, Chicago

KOCUREK, ARNOLD J.*
Rauscher, Pierce & Co., San Antonio

KOERNER, IRVING
Allen & Company, New York

KREBS, FESTUS J.
Metropolitan St. Louis Co., St. Louis

KRUG, THOMAS B.*
Bioren & Co., Philadelphia

KRUSE, JOHN A.*
Otis & Co., Cleveland

KRUSEN, H. STANLEY*
Shearson, Hammill & Co., New York

KYNETT, GERALD P.*
Brooke & Co., Philadelphia

LABOUISSE, JOHN P.*
Howard, Weil, Labouisse, Friedrichs & Company, New Orleans

LAEMMEL, WILLIAM C.
Chemical Bank & Trust Co., New York

LAIDLAW, HENRY B.*
Laidlaw & Co., New York

LAING, C. W.*
John Nuveen & Co., Chicago

LANE, ARTHUR D.*
The Chase National Bank of the City of New York, New York

LANE, Jr., MILLS B.*
The Citizens & Southern National Bank, Atlanta

LARKIN, Jr., F. G.
The Security-First National Bank of Los Angeles, Los Angeles

LARKIN, THOMAS A.*
Goodbody & Co., New York

LAUD-BROWN, WELLS
Bankers Trust Company, New York

LAVAN, PETER I. B.*
American Securities Corporation, New York

LAWSHE, EMMETT
Carl M. Loeb, Rhoades & Co., New York

LEDYARD, QUITMAN R.
J. C. Bradford & Co., Nashville

LEE, JAMES J.
Lee Higginson Corporation, New York

LEMKAU, HUDSON B.
Morgan Stanley & Co., New York

LEMON, JAMES H.*
Johnston, Lemon & Co., Washington

LENESS, GEORGE J.*
Merrill Lynch, Pierce, Fenner & Beane, New York

LESTER, B. P.*
Lester & Co., Los Angeles

LEVY, BENJAMIN J.*
Salomon Bros. & Hutzler, New York

LEVY, GUSTAVE L.*
Goldman, Sachs & Co., New York

LEWIS, ROBERT J.
Estabrook & Co., New York

LEWIS, SALIM L.*
Bear, Stearns & Co., New York

LIEBENFROST, CONRAD H.
Stern, Lauer & Co., New York

LILLIS, DONALD C.
Bear, Stearns & Co., New York

LINCOLN, MARY R.
Investment Bankers Association, Chicago

LINEN, JOHN S.
The Chase National Bank of the City of New York, New York

LINSLEY, DUNCAN R.*
The First Boston Corp., New York

LITTLE, ALDEN H.
Investment Bankers Association, Chicago

LITZELL, CHARLES M.
Hill & Co., Cincinnati

LIVINGSTONE, SEABOURN R.
S. R. Livingstone & Co., Detroit

LOEWI, J. VICTOR*
Loewi & Co., Milwaukee

LOFTUS, EDGAR J.*
R. S. Dickson & Co., Inc., New York

LOOMIS, CHARLES H.
The First National Bank of St. Paul, St. Paul

LOOMIS, JOHN S.*
The Illinois Company, Chicago

LOVE, E. L.*
The Chase National Bank of the City of New York, New York

LOW, V. THEODORE*
Bear, Stearns & Co., New York

LUCAS, Jr., MARK A.
Lucas, Eisen & Waeckerle, Inc., Kansas City

LUCKE, FRANK L.*
Laidlaw & Co., New York

LUDIN, JOSEPH
Dillon, Read & Co., Inc., New York

LYKLEMA, WALTER C.
A. C. Allyn and Company, Incorporated, Chicago

LYNCH, Jr., CHARLES McK.*
Moore, Leonard & Lynch, Pittsburgh

LYNN, EUGENE
A. G. Becker & Co. Incorporated, New York

LYONS, SAM B.*
Finance Publishing Corp., Chicago

LYONS, Jr., WILLIAM L.
W. L. Lyons & Co., Louisville

MacARTHUR, ROBERT W.*
Paine, Webber, Jackson & Curtis, Boston

MacBAIN, HUGH D.
Mellon National Bank & Trust Co., Pittsburgh

MacFADDEN, DONALD S.
Eastman, Dillon & Co., New York

MACHOLD, WILLIAM F.
Drexel & Co., Philadelphia

MACKEY, DONALD D.
Dominick & Dominick, New York

MAGNUS, JULIAN A.
Magnus & Company, Cincinnati

MAGOWAN, ROBERT A.
Merrill Lynch, Pierce, Fenner & Beane, New York

MALIK, JOHN S.
Fidelity-Philadelphia Trust Company, Philadelphia

MALLORY, WALDO W.
Clement A. Evans & Company, Inc., Atlanta

MARCKWALD, ANDREW K.
Discount Corporation of New York, New York

MARKS, LAURENCE M.*
Laurence M. Marks & Co., New York

MARKUS, NORBERT W.
Smith, Barney & Co., Philadelphia

MARTIN, GEORGE L.*
International Bank, New York

MARTIN, HAROLD M.
Murphey Favre, Inc., Spokane

MARTIN, WAYNE
Milhous, Martin & Co., Atlanta

MASON, ROBERT
Merrill Lynch, Pierce, Fenner & Beane, Chicago

MASTERS, WILLIAM G.
Putnam Fund Distributors, Inc., Boston

MAXWELL, JOHN M.
The Northern Trust Company, Chicago

MAY, J. DENNY
The Parker Corporation, Boston

MAY, W. PEYTON
Investment Corp. of Norfolk, Norfolk

MAYNARD, WALTER*
Shearson, Hammill & Co., New York

McCLINTOCK, FRANKLIN T.
Harriman Ripley & Co., Incorporated, New York

McCORMICK, D. DEAN*
Kebbon, McCormick & Co., Chicago

McCURDY, WALLACE M.*
Thayer, Baker & Co., Philadelphia

McDONALD, C. BERT
McDonald & Company, Cleveland

McDONALD, HARRY A.
Securities & Exchange Commission, Washington

McDONALD, Jr., HARRY A.
McDonald-Moore & Co., Detroit

McELROY, DAVID B.*
J. P. Morgan & Co. Incorporated, New York

McEWAN, GEORGE S.
Paul H. Davis & Co., Chicago

McFARLAND, DONALD E.*
Kalman & Company, Inc., Minneapolis

McGEOUGH, ARTHUR N.
The Milwaukee Company, Milwaukee

McGLONE, CARL*
Carl McGlone & Co., Inc., Chicago

McGREW, EDWARD D.
The Northern Trust Company, Chicago

McKEE, E. BATES
Richard W. Clarke Corp., New York

McKIE, STANLEY G.
The Weil, Roth & Irving Co., Cincinnati

Continued on page 61

INVESTMENT BANKERS ASSOCIATION OF AMERICA

OFFICERS 1950-1951

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Laurence M. Marks
Laurence M. Marks & Co.
New York

Vice-President

Russell D. Bell
Greenshields & Co. Inc.
Montreal

Vice-President

Walter W. Craigie
F. W. Craigie & Co.
Richmond

Vice-President

Mark C. Elworthy
Elworthy & Co.
San Francisco

Vice-President

John F. Fennelly
Glore, Forgan & Co.
Chicago

Vice-President

Joseph T. Johnson
The Milwaukee Company
Milwaukee

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Coffin & Burr, Incorporated, Boston

Andrew M. Baird
A. G. Becker & Co., Incorporated, Chicago

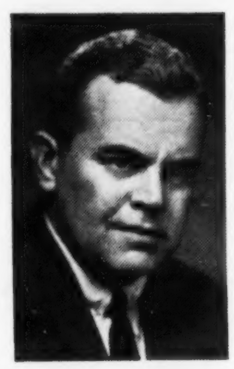
John H. Barret
Barret, Fitch & Co., Inc., Kansas City, Mo.

Howard M. Biscoe, Jr
Whiting, Weeks & Stubbs, Boston

Ewing Thomas Boles
The Ohio Company, Columbus

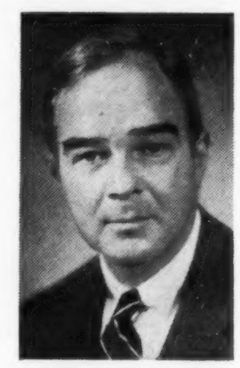
G. James Caldwell
Caldwell, Phillips Co., St. Paul

Harry C. Clifford
Kidder, Peabody & Co. New York City



George K. Coggeshall
Schoellkopf, Hutton & Pomeroy, Inc., N. Y. C.

George W. Davis
Davis, Skaggs & Co., San Francisco



Edward K. Dunn
Robt. Garrett & Sons, Baltimore

Benjamin F. Frick, Jr.
Stix & Co., St. Louis

C. G. Fullerton
A. E. Ames & Co. Limited, Toronto

Clarence E. Goldsmith
White Weld & Co., New York City

M. M. Grubbs
Grubbs, Scott & Co., Inc., Pittsburgh

Edward C. Henshaw
William R. Staats Co., San Francisco

S. R. Kirkpatrick
Kirkpatrick-Pettis Co., Omaha

George B. Kneass
The Philadelphia Nat'l Bank, Philadelphia

John S. Linen
The Chase Nat'l Bank of the City of N. Y., New York

Duncan S. Linsley
First Boston Corp. New York City

Norbert W. Markus
Smith, Barney & Co., Philadelphia

IBA GOVERNORS (Continued)

Harold M. Martin
Murphey Favre, Inc., Spokane

Charles B. McDonald
McDonald & Company, Cleveland

Andrew S. Mills
Newhard, Cook & Co., St. Louis

Stanley N. Minor
Pacific Northwest Company, Seattle

James W. Moss
Preston, Moss & Co., Boston

George F. Noyes
The Illinois Company, Chicago

Charles R. Perrigo
Hornblower & Weeks, Chicago

Ralph E. Phillips
Dean Witter & Co., Los Angeles

R. W. Pressprich, Jr.
R. W. Pressprich & Co., New York

Walter S. Robertson
Scott & Stringfellow, Richmond, Va.

Earl M. Scanlan
Earl M. Scanlan & Co., Denver

Wickliffe Shreve
Hayden, Stone & Co., New York

Richard W. Simmons
Blunt Ellis & Simmons, Chicago

Ralph W. Simonds
Baker, Simonds & Co., Detroit

Philip M. Stearns
Estabrook & Co., Boston

Raymond D. Stitzer
Equitable Securities Corporation, N. Y. C.

Benjamin A. Walter
Bingham, Walter & Hurry, Los Angeles

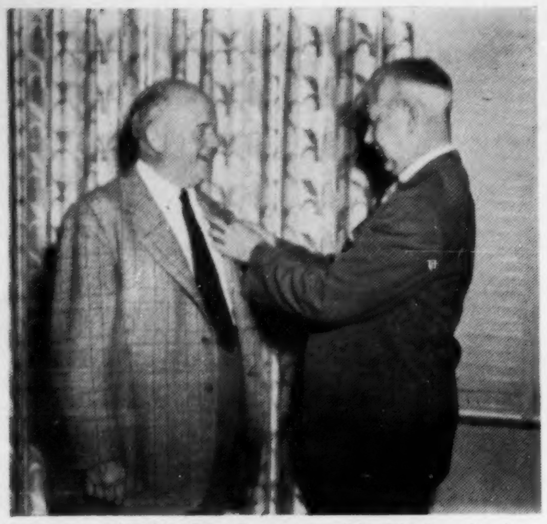
Charles W. Warterfield
Cumberland Securities Corporation, Nashville

Hempstead Washburne
Harris, Hall & Company, Chicago

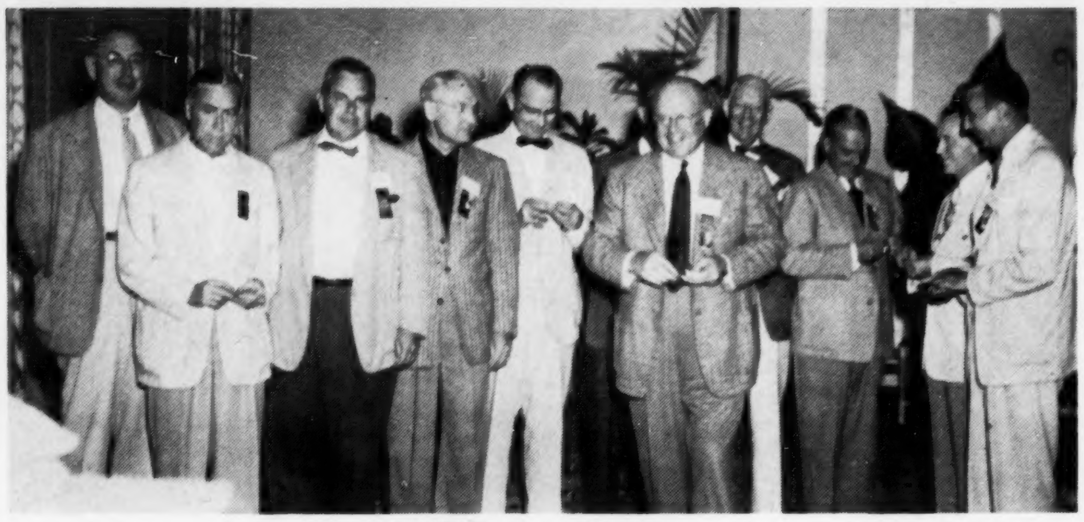
Chas. B. White
Chas. B. White & Co., Houston

Harry H. White
White, Hattier & Sanford, New Orleans

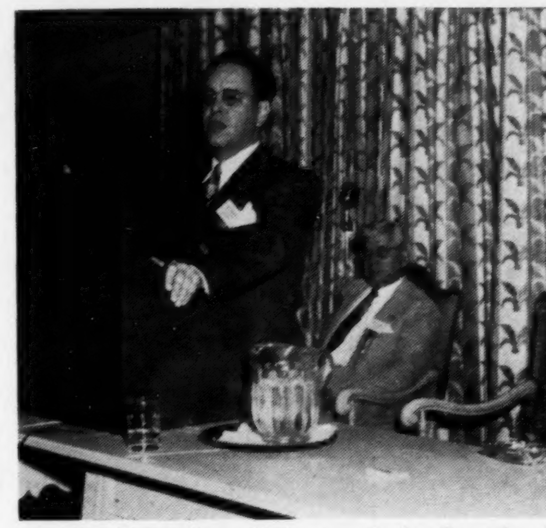
New Officers Installed



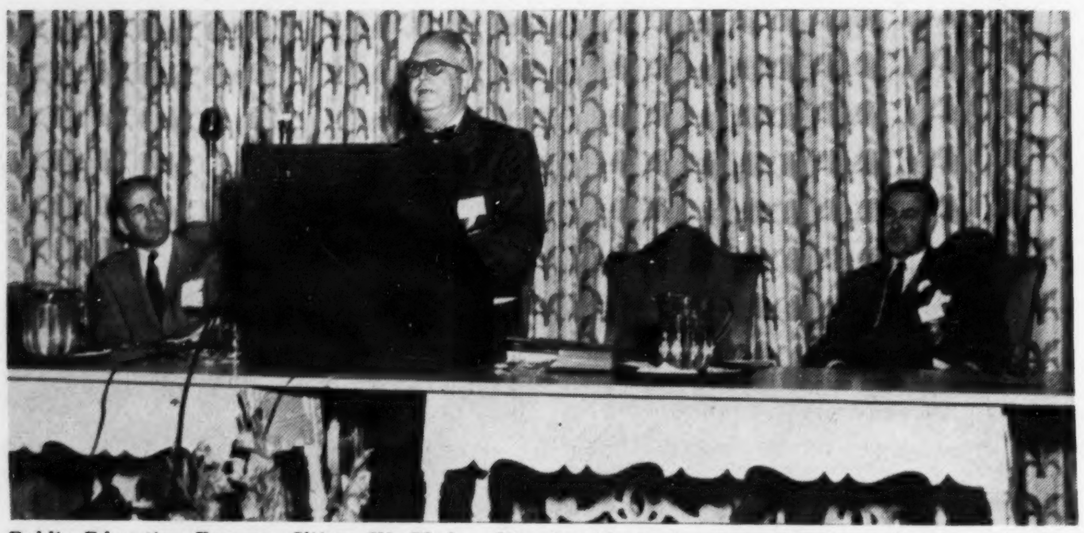
Laurence M. Marks, *Laurence M. Marks & Co.*, New York City, the newly elected President, receiving badge of office from Albert T. Armitage, *Coffin & Burr, Incorporated*, Boston, retiring President



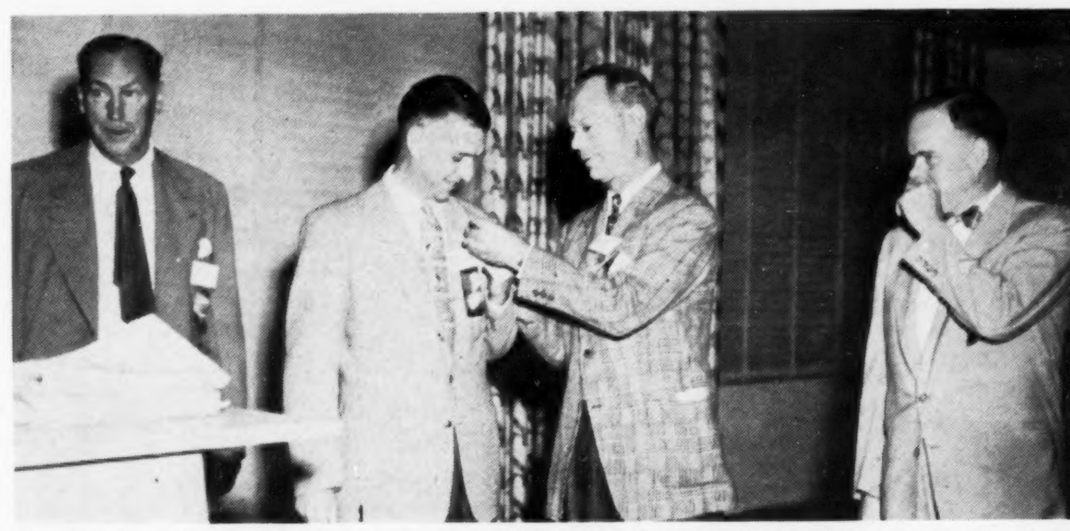
Installation of new Governors



Leon H. Keyserling, Chairman of the Council of Economic Advisers, addressing the Convention

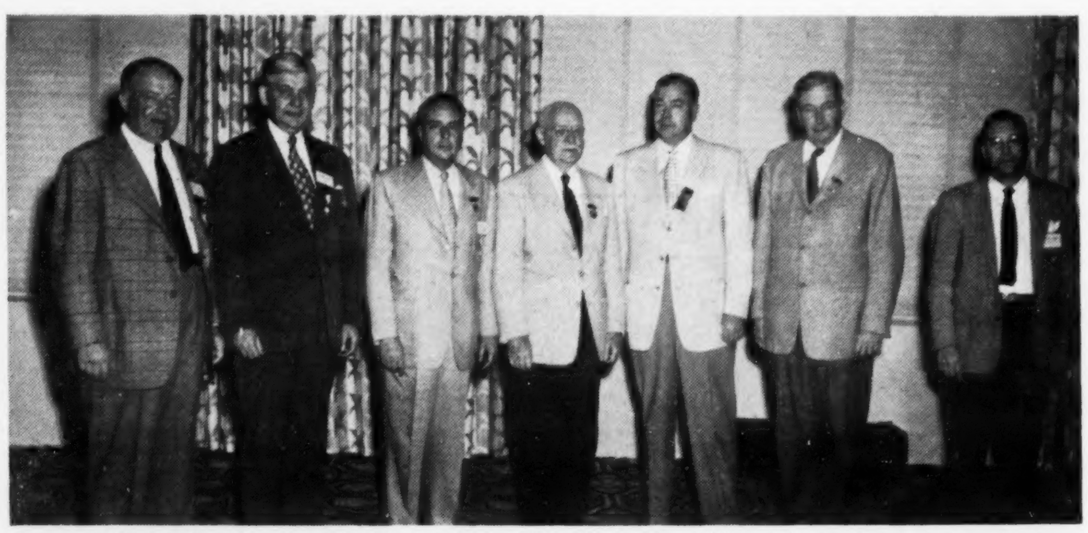


Public Education Forum: Clifton W. Phalen, Vice-President, *American Telephone & Telegraph Co.*, New York City; Joseph T. Johnson, *The Milwaukee Company*, Milwaukee (at the microphone); Holgar J. Johnson, President of *Institute of Life Insurance*, New York City



New Vice-Presidents: Russell D. Bell, *Greenshield & Co. Inc.*, Montreal; Walter W. Craigie, *F. W. Craigie & Co., Richmond*; Mark C. Elworthy, *Elworthy & Co.*, San Francisco; John F. Fennelly *Glore, Forgan & Co.*, Chicago; Joseph T. Johnson, *The Milwaukee Company* (not in picture)

Mr. and Mrs. Laurence M. Marks, *Laurence M. Marks & Co.*, New York City



Laurence M. Marks, *Laurence M. Marks & Co.*, New York City; Albert T. Armitage, *Coffin & Burr, Incorporated*, Boston; Hal H. Dewar, *Dewar, Robertson & Pancoast*, San Antonio; John A. Prescott, *Prescott, Wright, Snider Co.*, Kansas City, Mo.; Julien H. Collins, *Julien Collins & Company*, Chicago; Edward Hopkinson, Jr., *Drexel & Co.*, Philadelphia; Charles S. Garland, *Alex. Brown & Sons*, Baltimore, Md.

Philip McLellan, *Vance, Sanders & Company*, Boston; Albert T. Armitage, *Coffin & Burr, Incorporated*, Boston; Mrs. Philip McLellan, Boston

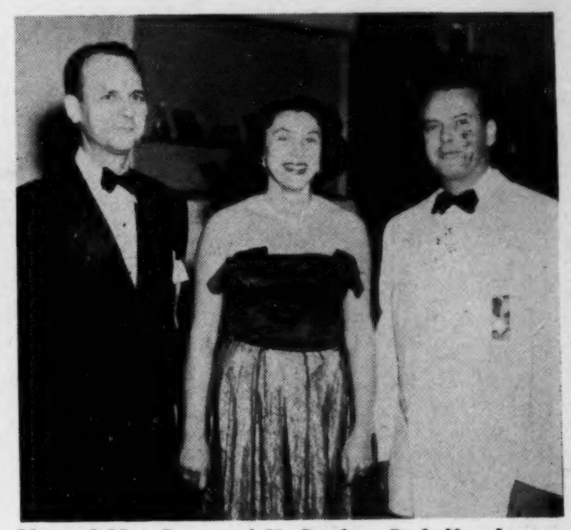
Joseph T. Johnson, *The Milwaukee Company, Milwaukee*, Wis.; Leon H. Keyserling, *Council of Economic Advisers*, Washington, D. C.; Julien H. Collins, *Julien Collins & Company*, Chicago; Albert T. Armitage, *Coffin & Burr, Incorporated*, Boston, Mass.; Laurence M. Marks, *Laurence M. Marks & Co.*, New York City

Investment Companies Forum: Mayo Adams Shattuck, *Hausserman, Davison & Shattuck*, Boston; Harry I. Prankard, 2nd, *Lord, Abbett & Co.*, New York City; Charles F. Eaton, Jr., *Eaton & Howard, Incorporated*, Boston; Robert L. Osgood, *Vance, Sanders & Company*, Boston; George E. Clark, *Adamex Securities Corporation*, New York City

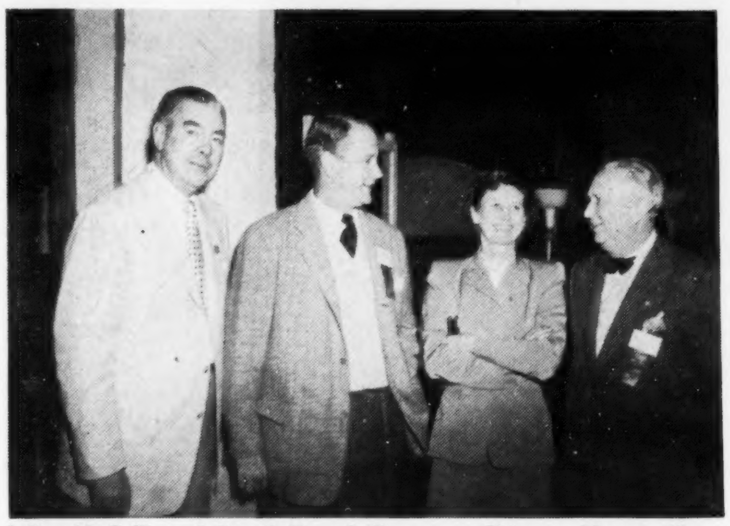
At Investment Bankers Association Convention

Palmer Watling, *Watling, Lerchen & Co.*, Detroit, Mich.; Mr. and Mrs. Charles McK. Lynch, Jr., *Moore, Leonard & Lynch*, Pittsburgh

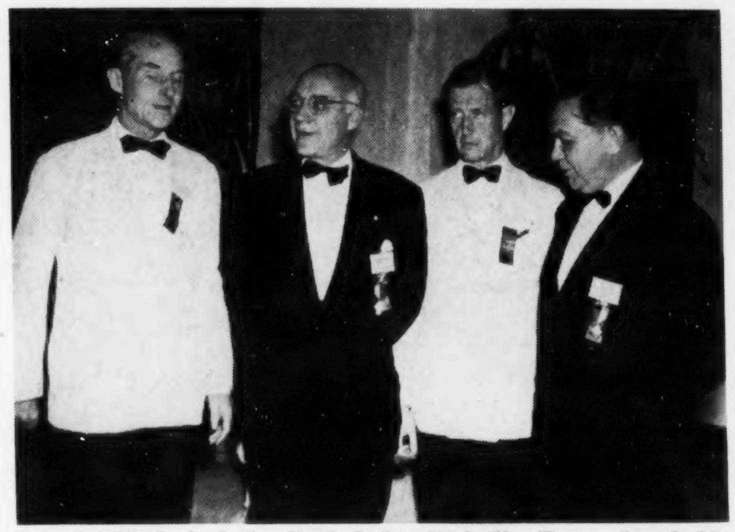
Public Education Committee Meeting



Mr. and Mrs. Raymond V. Condon, *B. J. Van Ingen & Co., Inc.*, Chicago; James E. Roddy, Scharff & Jones, *Inc.*, New Orleans, La.

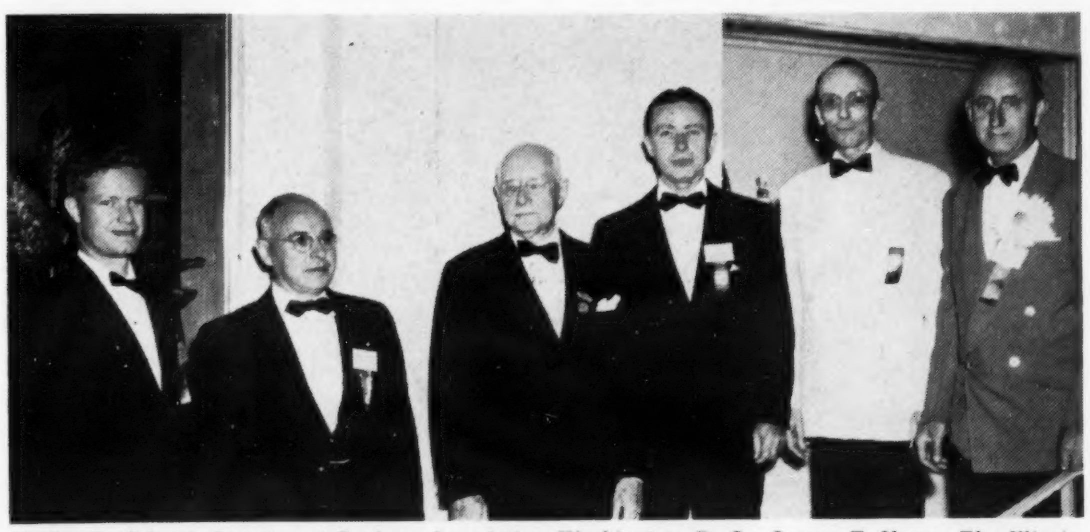


Julien H. Collins, *Julien Collins & Company, Chicago;* Murray Hanson, *Investment Bankers Association*, Washington, D. C.; Mrs. Frank Weeden, San Francisco; Joseph T. Johnson, *The Milwaukee Company*, Milwaukee, Wis.

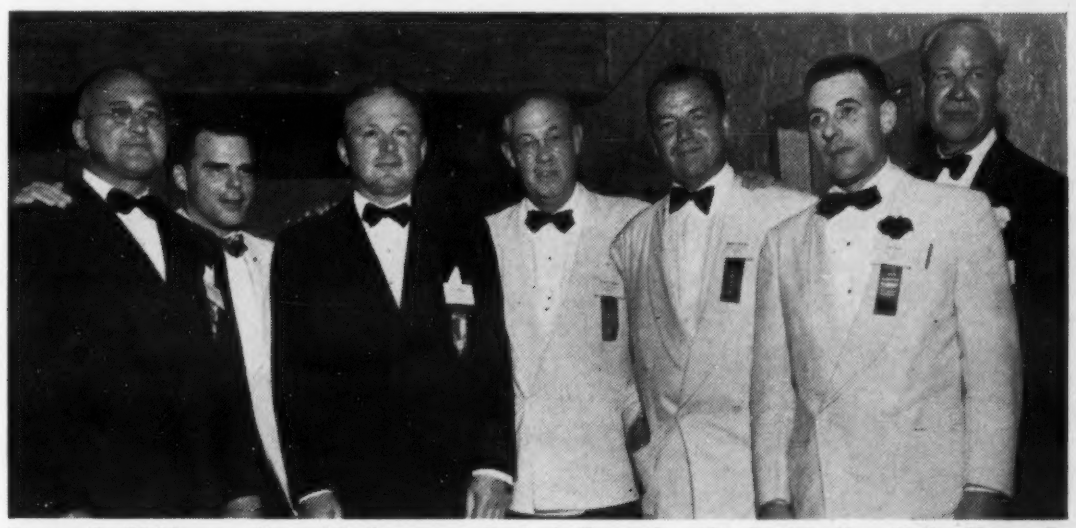


J. C. Bradford, *J. C. Bradford & Co.*, Nashville, Tenn.; Joseph M. Scribner, *Singer, Deane & Scribner*, Pittsburgh, President of the Association of Stock Exchange Firms; Earle Catchell, *Hayden, Stone & Co.*, New York City; Sidney L. Parry, *Association of Stock Exchange Firms*, New York City

F. Vincent Reilly, *Commercial & Financial Chronicle;* James K. Miller, *Dominion Securities Corporation*, New York City; Andrew J. Raymond, *Dominion Securities Corporation*, New York City; Allen J. Nix, *Riter & Co.*, New York City



Gordon L. Calvert, *Investment Bankers Association*, Washington, D. C.; George F. Noyes, *The Illinois Company*, Chicago; John A. Prescott, *Prescott, Wright, Snider Co.*, Kansas City, Mo.; Charles S. Vrtis, *Glore, Forgan & Co.*, Chicago; Harold M. Martin, *Murphey Favre, Inc.*, Spokane, Wash.; Joseph L. Morris, *The Robinson-Humphrey Company*, Atlanta, Ga.

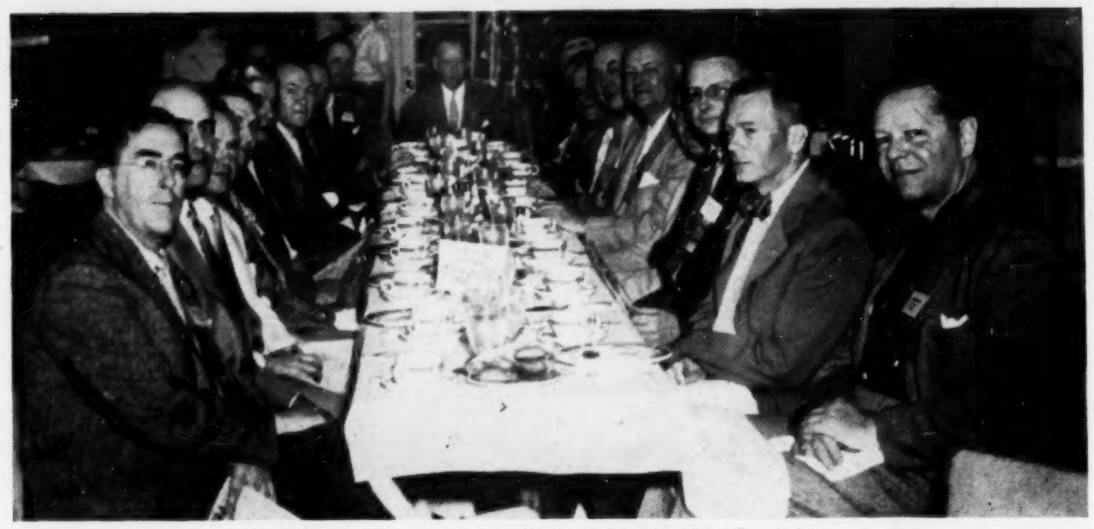


George R. Waldmann, *Mercantile-Commerce Bank & Trust Co.* (St. Louis), New York; Henry B. Laidlaw, *Laidlaw & Co.*, New York; Paul L. Mullaney, *Mullaney, Wells & Company*, Chicago; Frederic P. Mullins, *A. E. Masten & Company*, Pittsburgh; Russell J. Olderman, *Olderman, Asbeck & Co.*, Cleveland; Dana F. Baxter, *Hayden, Miller & Co.*, Cleveland; Richard C. Noel, *Van Alstyne, Noel & Co.*, New York City

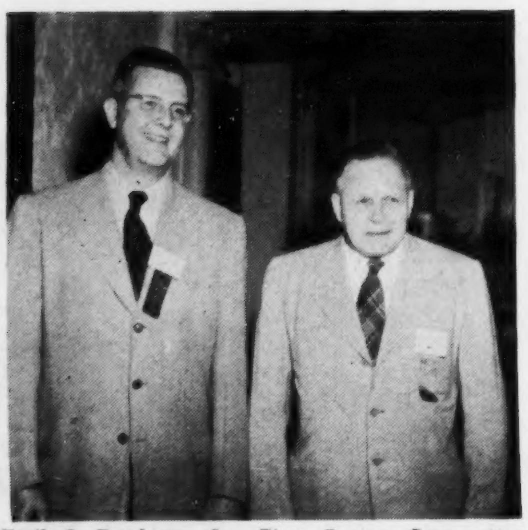
Group Chairmen's Committee Meeting

November 27th to December 1st, 1950

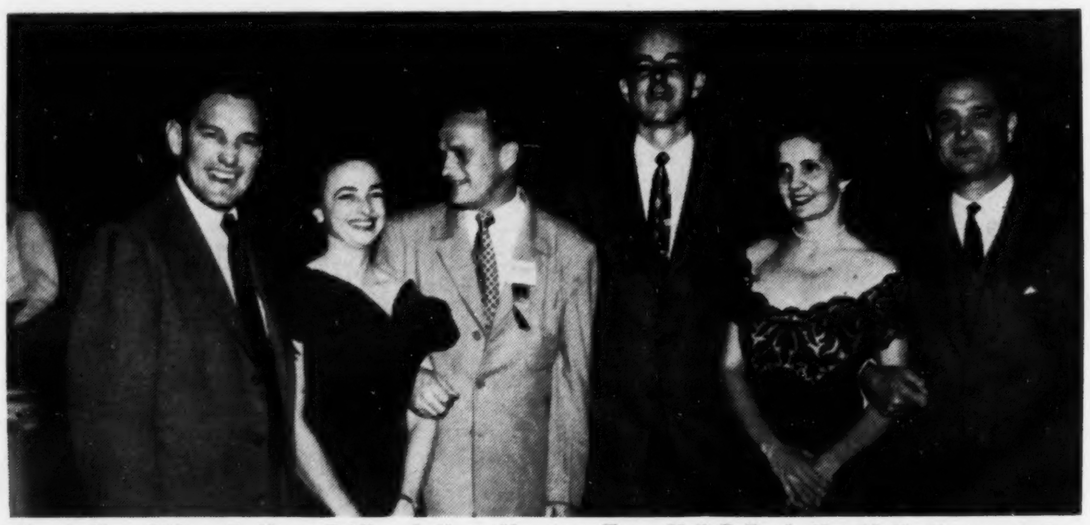
Breakfast Meeting of the Industrial Securities Committee



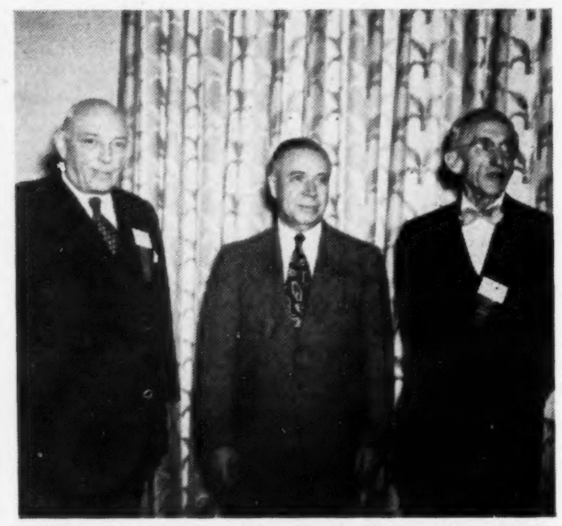
Breakfast Meeting of the Federal Legislation Committee



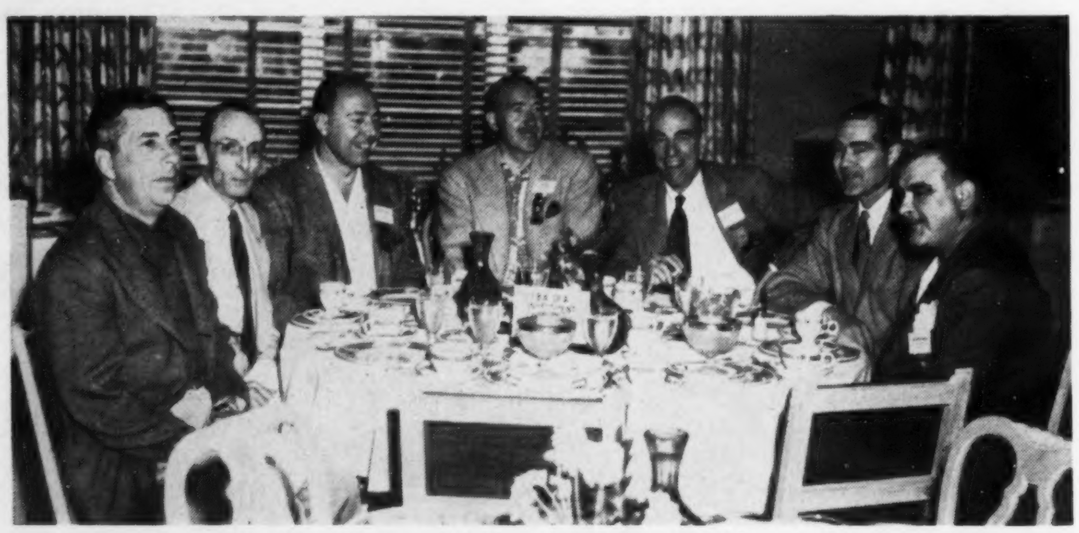
Emil J. Pattberg, Jr., *First Boston Corporation*, New York City; John S. Linen, *Chase National Bank of the City of New York*, New York City



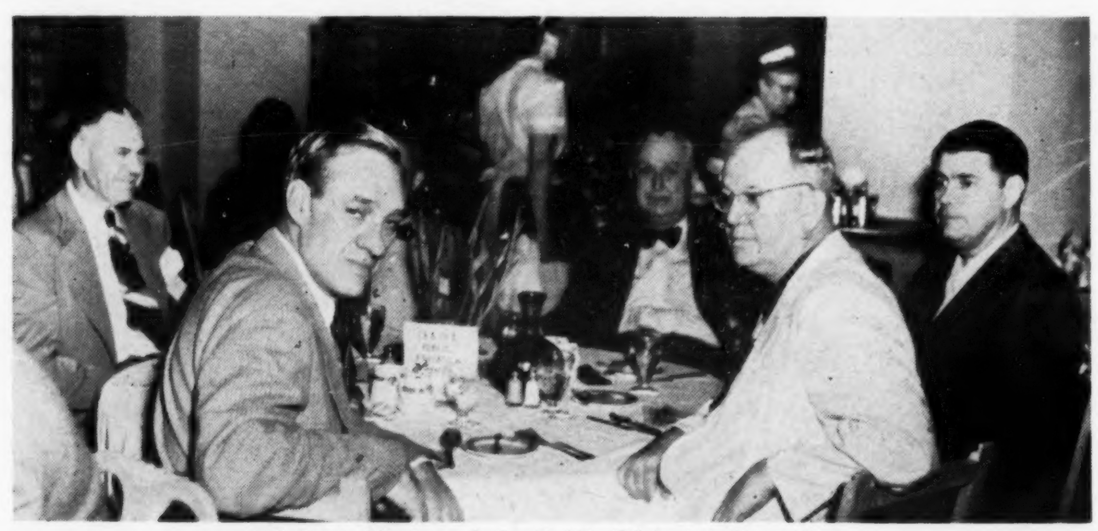
Mr. & Mrs. Wilbur E. Hess, *Fridley & Hess*, Houston, Tex.; Neil Ballard, *Harold H. Huston & Co.*, Seattle, Wash.; Robert B. Harkness, *Estabrook & Co.*, Boston, Mass.; Mr. & Mrs. Malon C. Courts, *Courts & Co.*, Atlanta, Ga.



Phillips T. Barbour, *The Bond Buyer*, New York City; David M. Wood, *Wood, King & Dawson*, New York City; Robie L. Mitchell, *Mitchell & Pershing*, New York City



Breakfast Meeting of the Investment Companies Committee



Breakfast Meeting of the Public Education Committee

John G. Heimerdinger, *Walter, Woody & Heimerdinger*, Cincinnati; Robert W. Thornburgh, *The W. C. Thornburgh Co.*, Cincinnati; Stanley G. McKie, *The Weil, Roth & Irving Co.*, Cincinnati; Julian A. Magnus, *Magnus & Company*, Cincinnati

John Swaney, *Century Distributors*, Boston, Mass.; Robert B. Blyth, *National City Bank of Cleveland*; Leslie J. Fahey, *Fahey, Clark & Co.*, Cleveland, Ohio; Jack R. Staples, *Fulton, Reid & Co.*, Cleveland, Ohio

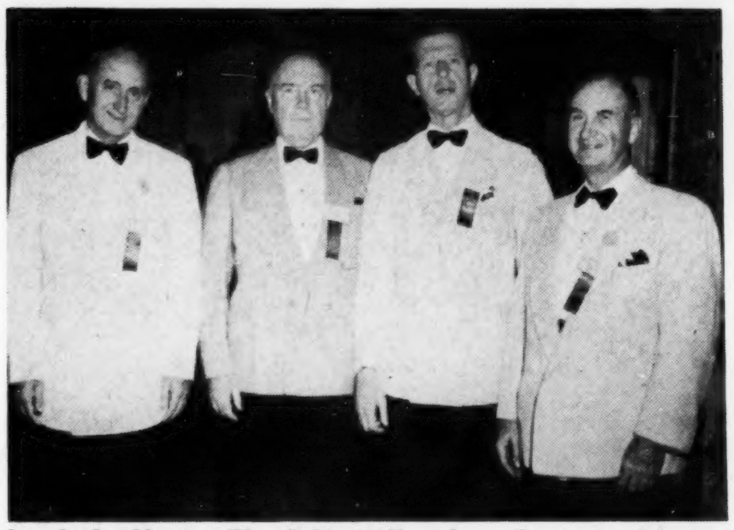
Brooke L. Wynkoop, *Fahnestock & Co.*, New York City; Herbert R. Anderson, *Distributors Group, Incorporated*, New York City; Edward C. Gray, Executive Vice-President, *New York Stock Exchange*; Sidney L. Parry, *Association of Stock Exchange Firms*, New York City

At Hollywood Beach, Fla.

C. Bert McDonald, *McDonald & Company*, Cleveland, Ohio; Edward Hopkinson, Jr., *Drexel & Co.*, Philadelphia, Pa.; Harry A. McDonald, *Securities and Exchange Commission*, Washington, D. C.

Edward E. Patterson, *Patterson, Copeland & Kendall, Inc.*, Chicago; Mrs. O. Paul Decker, Chicago; Miss May Patterson, Chicago; Edward D. Jones, *Edward D. Jones & Co.*, St. Louis, Mo.; O. Paul Decker, *American National Bank & Trust Co. of Chicago*

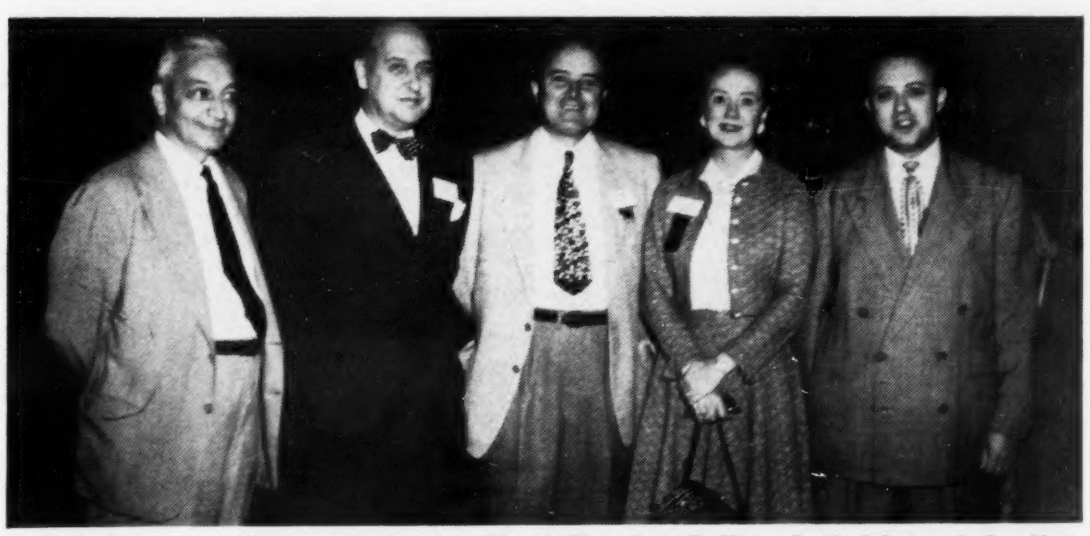
Mark Davids, *Lester & Co.*, Los Angeles; John Brick, *Kidder, Peabody & Co.*, New York; William S. Hughes, *Wagenseller & Durst, Inc.*, Los Angeles



Joseph L. Morris, *The Robinson-Humphrey Company*, Atlanta; Herbert V. B. Gallager, *Yarnall & Co.*, Philadelphia; Earle Gatchell, *Hayden, Stone & Co.*, New York City; Rudolf Smutny, *Salomon Bros. & Hutzler*, New York City

Mr. & Mrs. Milton G. Hulme, *Glover & MacGregor, Inc.*, Pittsburgh, Pa.; Mr. & Mrs. George E. Clark, *Adamex Securities Corporation*, New York City

Mr. & Mrs. Walter L. Morgan, *Wellington Fund, Inc.*, Philadelphia; William C. Porter, *Dittmar & Company*, San Antonio, Tex.; Paul A. Johnston, *Barron's Publishing Co.*, New York City



A. L. P. Smith, *J. A. Rayvis Company, Inc.*, Miami, Fla.; Ross E. King, *R. H. Johnson & Co.*, New York City; Mr. & Mrs. Rupert H. Johnson, *R. H. Johnson & Co.*, New York City; Joseph A. Rayvis, *J. A. Rayvis Company, Inc.*, Miami, Fla.

Mr. & Mrs. Gustave L. Levy, *Goldman, Sachs & Co.*, New York City; Mr. & Mrs. Milton S. Trost, *Stein Bros. & Boyce*, Louisville, Ky.; Salim L. Lewis, *Bear, Stearns & Co.*, New York City

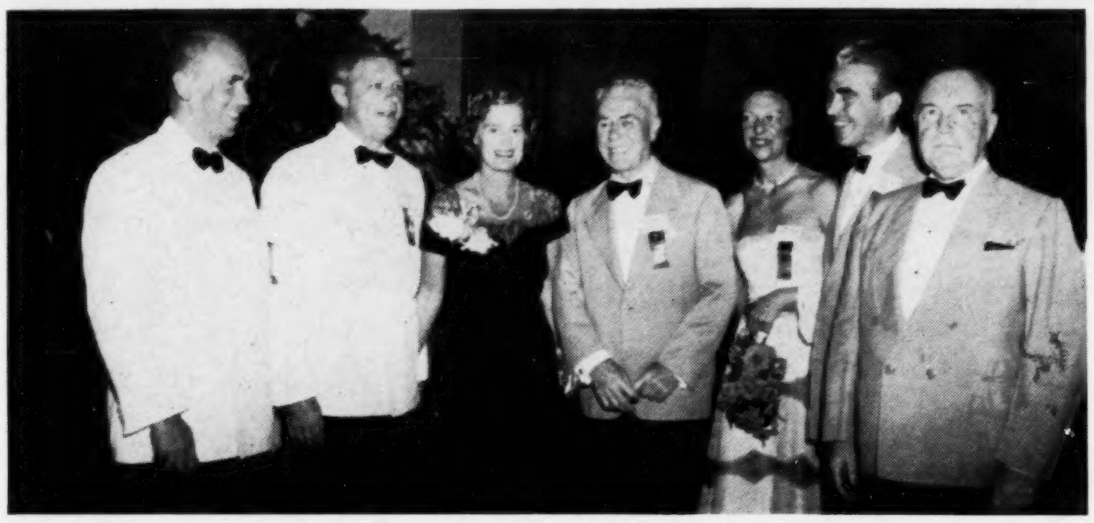
Curtis B. Woolfolk, *Central Republic Company*, Chicago; John F. Bolger, *Shillinglaw, Bolger & Co.*, Chicago; James M. Pigott, *Central Republic Company*, Chicago

Arnold Tschudy, *Bank of America, N. T. & S. A.*, San Francisco; Russell A. Kent, *Bank of America, N. T. & S. A.*, San Francisco; Mr. & Mrs. Frank Weeden, *Weeden & Co.*, San Francisco; F. Vincent Reilly, *Commercial & Financial Chronicle*, New York City

John F. Egan, *First California Company*, President of the National Security Traders Association; Paul R. Rowen, *Securities and Exchange Commission*, Washington, D. C.; William A. Parker, *The Parker Corporation*, Boston, Mass.

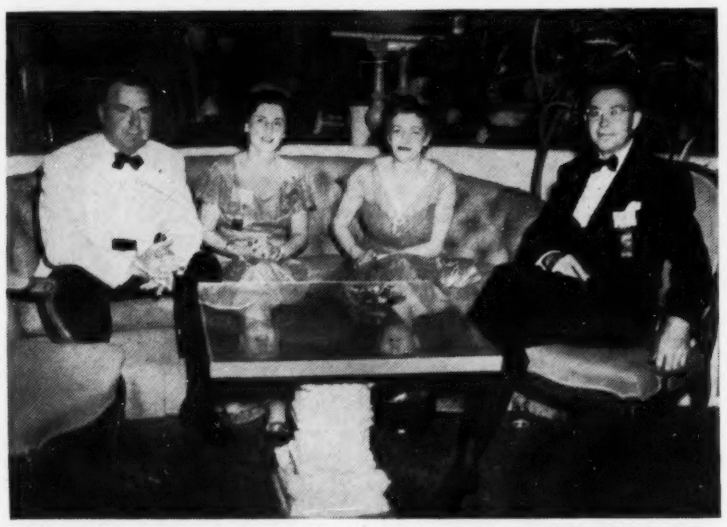
Membership Attendance at New Peak

Southern Group Room



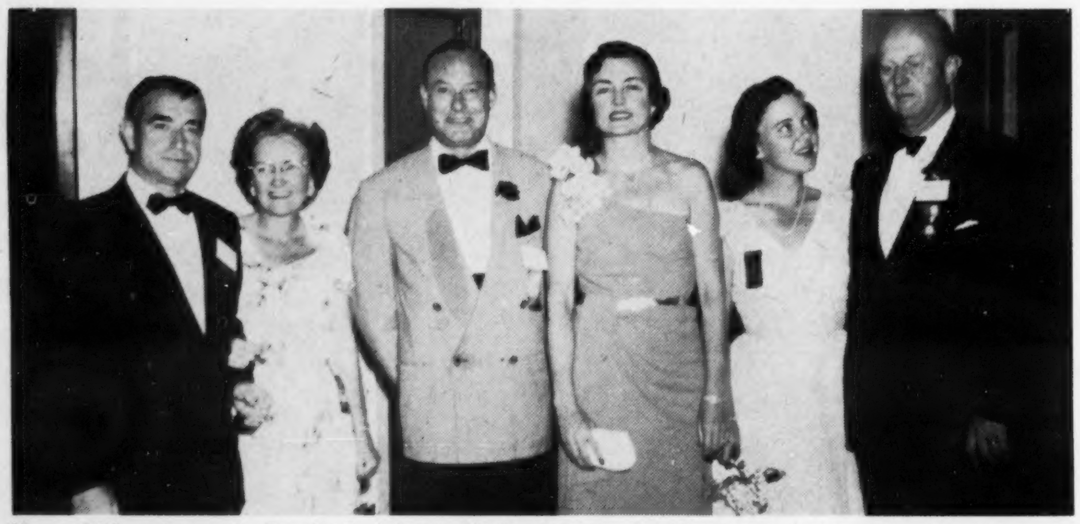
Bertram M. Wilde, *Janney & Co.*, Philadelphia; Mr. and Mrs. Alfred Rauch, *Kidder, Peabody & Co.*, Philadelphia; Clyde L. Paul, *Paul & Lynch*, Philadelphia; Mr. and Mrs. Addison W. Arthurs, *Arthurs, Lestrange & Co.*, Pittsburgh; Herbert V. B. Gallager, *Yarnall & Co.*, Philadelphia

Jesse P. Donnally, *Peoples National Bank*, Charlottesville, Va.; Mrs. William S. Hildreth; M. Carter Gunn, *Scott, Horner & Mason, Inc.*, Lynchburg, Va.; Mrs. Jesse P. Donnally; William S. Hildreth, *Peoples National Bank*, Charlottesville, Va.



William M. Alley, *A. E. Ames & Co., Inc.*, New York City; Mrs. Donald E. McFarland, Minneapolis, Minn.; Mrs. William M. Alley; Donald E. McFarland, *Kalman & Company, Inc.*, Minneapolis

Mr. and Mrs. Gerald P. Kynett, *Brooke & Co.*, Philadelphia; Francis Goodhue, III., *Calvin Bullock*, Philadelphia; Mr. and Mrs. Thomas B. Krug, *Bioren & Co.*, Philadelphia



Mr. and Mrs. James A. Cranford, *Atlantic National Bank of Jacksonville*, Jacksonville, Fla.; Mr. and Mrs. George Van Hart, *Salomon Bros. & Hutzler*, New York City; Mr. and Mrs. William Atwill, Jr., *Atwill and Company*, Miami Beach, Fla.

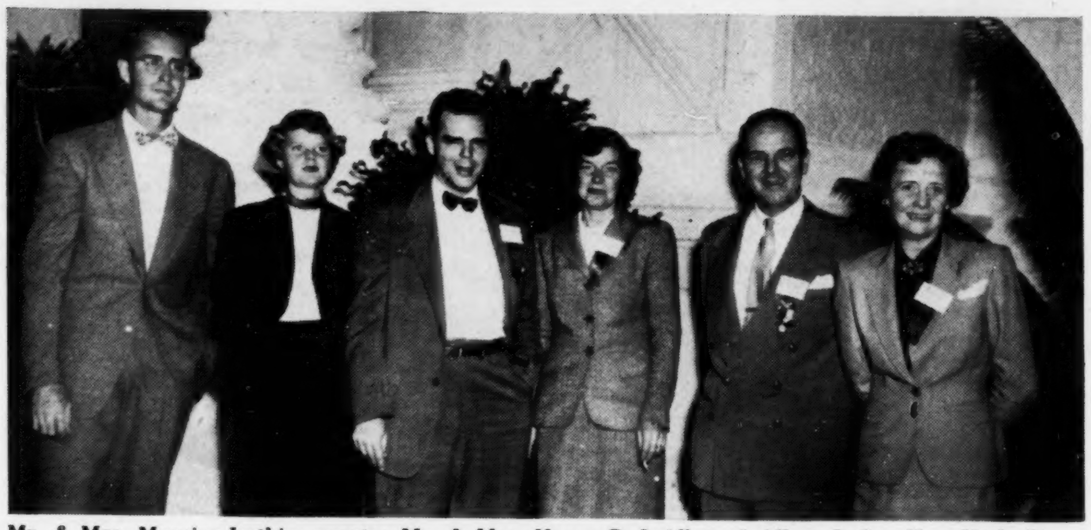
Richard P. Dunn, *Auchincloss, Parker & Redpath*, Washington, D. C.; Bayard Dominick, II, *Dominick & Dominick*, New York City; Edward K. Dunn, *Robert Garrett & Sons*, Baltimore, Md.; Walter S. Robertson, *Scott & Stringfellow*, Richmond, Va.; Mr. and Mrs. Mark Sullivan, Jr., *Auchincloss, Parker & Redpath*, Washington, D. C.

Edward Hall, *Harris, Hall & Company*, Chicago; Mr. and Mrs. George K. Coggeshall, *Schoellkopf, Hutton & Pomeroy, Inc.*, New York City; Mr. and Mrs. J. Emerson Thors, *Kuhn, Loeb & Co.*, New York City; Mr. and Mrs. J. Earle Jardine, Jr., *William R. Staats Co.*, Los Angeles

Herbert I. Shaw, *Vance, Sanders & Company*, New York City; Mrs. Betty A. Newby, *T. Nelson O'Rourke & Co.*, Dayton Beach, Fla.; Mr. and Mrs. Alfred Stalker, *Kidder, Peabody & Co.*, New York City; Mr. and Mrs. Edward E. Hale, *Vance, Sanders & Company*, Boston

Mr. and Mrs. Albert C. Purkiss, *Walston, Hoffman & Goodwin*, New York City; Eugene P. Barry, *Shields & Company*, New York City; Mr. and Mrs. J. Paul Woollomes, *Wulff, Hansen & Co.*, San Francisco

Business Meetings Heavily Attended



Mr. & Mrs. Maurice Lutkin, guests; Mr. & Mrs. Henry B. Laidlaw, *Laidlaw & Co.*, New York City; Mr. & Mrs. Frank L. Lucke, *Laidlaw & Co.*, New York City

Raymond D. Stitzer, *Equitable Securities Corporation*, New York City; Robert J. Lewis, *Estabrook & Co.*, New York City; Mr. & Mrs. Ernest W. Borkland, Jr., *Tucker, Anthony & Co.*, New York City; Joseph W. Dixon, *American Securities Corporation*, New York City

William P. Sharpe, *Mercantile-Commerce Bank & Trust Company*, St. Louis, Mo.; Mrs. Hal H. Dewar, San Antonio, Tex.; John A. Prescott, *Prescott, Wright, Snider Co.*, Kansas City, Mo.; Andrew S. Mills, *Newhard, Cook & Co.*, St. Louis, Mo.; Festus J. Krebs, *Metropolitan St. Louis Co.*, St. Louis, Mo.

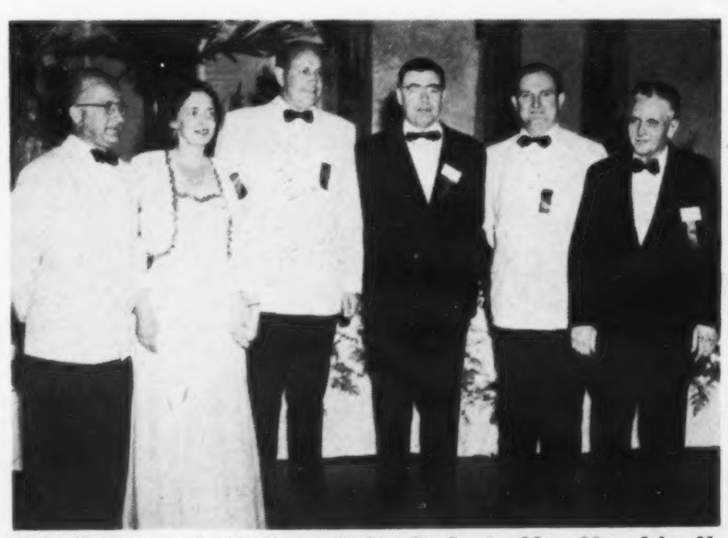
M. Carter Gunn, *Scott, Horner & Mason, Inc.*, Lynchburg, Va.; Mr. and Mrs. Edgar J. Loftus, *R. S. Dickson & Co., Inc.*, New York City; Mr. and Mrs. Edwin B. Horner, *Scott, Horner & Mason, Inc.*, Lynchburg, Va.

Robert E. Clark, *Calvin Bullock*, New York City; Mr. & Mrs. J. Russell Postlethwaite, *Irving Lundborg & Co.*, San Francisco; Hugh D. MacBain, *Mellon National Bank & Trust Co.*, Pittsburgh; Robert Stevenson, 3rd, *Invetment Bankers Association*, Chicago

Albert R. Hughes, *Lord, Abbett & Co.*, New York City; Mrs. W. Guy Redman; Mrs. Albert R. Hughes; W. Guy Redman, *A. G. Edwards & Sons*, St. Louis

Mr. and Mrs. Julian W. Tindall, *J. W. Tindall & Co.*, Atlanta; Mr. and Mrs. Roy W. Hancock, *Hancock, Blackstock & Co.*, Atlanta

Mr. and Mrs. Anthony E. Tomasic, *Thomas & Company*, Pittsburgh; Mr. and Mrs. Thomas J. Reis, *Seasongood & Mayer*, Cincinnati, Ohio



Elvin K. Pepper, *I. M. Simon & Co.*, St. Louis, Mo.; Mrs. John H. Edwards, Oklahoma City, Okla.; J. Cliff Rahel, *Wachob-Bender Corporation*, Omaha, Neb.; John H. Edwards, *R. J. Edwards, Inc.*, Oklahoma City, Okla.; Mark A. Lucas, Jr., *Lucas, Eisen & Waeckerle, Inc.*, Kansas City, Mo.; Festus J. Krebs, *Metropolitan St. Louis Co.*, St. Louis, Mo.

James P. Cleaver, *Goodbody & Co.*, New York City; Mr. and Mrs. Thomas A. Larkin, *Goodbody & Co.*, New York City; Kurt H. Grunebaum, *New York Hanseatic Corporation*, New York City; Morris A. Schapiro, *M. A. Schapiro & Co., Inc.*, New York City

Breaking Away from Business of Day

William G. Hobbs, Jr., *Russ & Company, Inc.*, San Antonio; Mrs. J. Marvin Moreland, Galveston, Tex.; Mrs. Paul B. Hanrahan, Worcester, Mass.; S. Whitney Bradley, *Eaton & Howard, Incorporated*, Boston, Mass.; Mrs. Charles J. Fleming, Worcester, Mass.; Mr. and Mrs. Edward D. Muir, *Russ & Company, Inc.*, San Antonio, Tex.

Ernest W. Borkland, Jr., *Tucker, Anthony & Co.*, New York City; Graham Jones, *Cooley & Company*, Hartford, Conn.; Raymond D. Stitzer, *Equitable Securities Corporation*, New York City; Mrs. Graham Jones; Gerald B. West, *Stone & Webster Securities Corporation*, New York City; Clarence E. Goldsmith, *White, Weld & Co.*, New York City; Mrs. Ernest W. Borkland, Jr.

Mrs. Monroe V. Poole, New York City; Mrs. George R. Waldmann, New York City; Mrs. John J. Kenny, New York City; Mrs. Alfred J. Ross, *Dick & Merle-Smith*, New York City

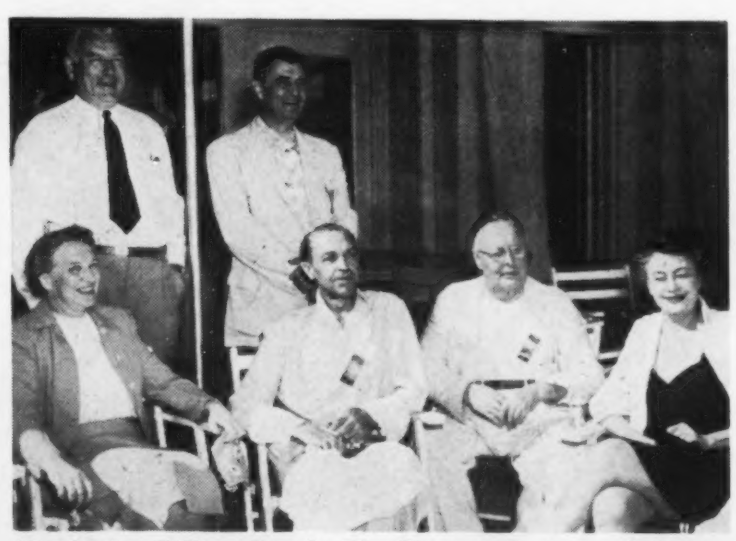
Mrs. Wallace M. McCurdy, Philadelphia; Mrs. June S. Jones, Portland, Oregon; Mrs. Henry R. Hallowell, Philadelphia; Mr. & Mrs. Ewing T. Boles, *The Ohio Company*, Columbus, Ohio; Mr. & Mrs. Henry G. Riter, 3rd, *Riter & Co.*, New York City

Ralph Chapman, *Farwell, Chapman & Co.*, Chicago; Mrs. Ralph E. Phillips, Los Angeles; T. Jerrold Bryce, *Clark, Dodge & Co.*, New York; Mrs. Robert E. Broome, New York City; Mr. & Mrs. Robert H. Craft, *Guaranty Trust Company*, New York City

(Standing) Russell E. Siefert, *Stern Brothers & Co.*, Kansas City, Mo.; Joseph A. Glynn, Jr., *Blewer, Heitner & Glynn*, St. Louis; Bert H. Horning, *Stifel, Nicolaus & Company, Incorporated*, St. Louis; Andrew S. Mills, *Newhard, Cook & Co.*, St. Louis; Julius W. Reinholdt, Jr., *Reinholdt & Gardner*, St. Louis, Mo.; (Seated): Mrs. Russell E. Siefert, Kansas City, Mo.; Mr. and Mrs. Richard Morey, Jr., *A. G. Edwards & Sons*, St. Louis; Mrs. Andrew S. Mills; Benjamin F. Frick, Jr., *Stix & Co.*, St. Louis; James M. Canavan, *Smith, Moore & Co., St. Louis*; Mrs. Julius W. Reinholdt, Jr.

Mrs. Frederick W. Straus, Chicago; Mrs. and Mr. George M. Gregory, *Gregory & Son, Incorporated*, New York City; William H. Gregory, Jr., *Bonner & Gregory*, New York City; Mrs. Joseph W. Sener, Baltimore, Maryland

Bert H. Horning, *Stifel, Nicolaus & Company, Incorporated*, St. Louis; Mr. & Mrs. Jerome F. Tegeler, *Dempsey-Tegeler & Co.*, St. Louis; Robert A. Podesta, *Cruttenden & Co.*, Chicago



(Standing): William Cusack, *The Keystone Company of Boston*, Boston, Mass.; Don E. Arries, *D. E. Arries & Co.*, Tampa, Fla.; (Seated): Mrs. William Cusack; Norman C. Ray, *Kay, Richards & Co.*, Pittsburgh; Mr. and Mrs. Joseph H. Fauset, *Fauset, Steele & Co.*, Pittsburgh

Mrs. Hal H. Dewar, San Antonio, Tex.; Paris Scott Russell, Jr., *Glore, Forgan & Co.*, New York City; Joseph W. Sener, *John C. Legg & Company*, Baltimore, Md.; Arthur N. McGeogh, *The Milwaukee Company*, Milwaukee, Wis.; Mrs. Douglas G. Bonner, New York City; Hal H. Dewar, *Dewar, Robertson & Pancoast*, San Antonio, Tex.; Douglas G. Bonner, *Bonner & Gregory*, New York City

Enjoying Surf and Pool

H. Wilson Arnold, *Weil & Arnold*, New Orleans; Mrs. Rucker Agee; Mortimer Cohen, *Sterne, Agee & Leach*, Montgomery, Ala.; Rucker Agee, *Sterne, Agee & Leach*, Birmingham, Ala.; Mrs. Mortimer Cohen, Montgomery, Ala.; Mrs. H. Wilson Arnold, New Orleans

Francis Adams Truslow, *New York Curb Exchange;* Mr. & Mrs. Charles L. Hewitt, *Francis I. du Pont & Co.*, New York City; Mrs. Francis Adams Truslow; Mr. & Mrs. Malon C. Courts, *Courts & Co.*, Atlanta, Ga.; Robert E. Broome, *Guaranty Trust Company*, New York City; James C. Warren, *A. M. Kidder & Co.*, New York City

Elvin K. Popper, *I. M. Simon & Co.*, St. Louis, Mo.; Mr. and Mrs. Gerhard B. Noll, *Kebbon, McCormick & Co.*, Chicago; Mrs. Carman G. King, Toronto

Mrs. George F. Noyes, Chicago; Mrs. Carl McGlone, Chicago; Mrs. Dudley C. Smith, Chicago; Carl McGlone, *Carl McGlone & Co., Inc.*, Chicago

Edward B. Hall, *Harris, Hall & Company*, Chicago; Mrs. Richard N. Rand, New York; Mrs. Joseph H. King, New York; William P. King, *King, Quirk & Co., Incorporated*, New York

Norman C. Ray, *Kay, Richards & Co.*, Pittsburgh; Mr. & Mrs. Wilbur E. Johnson, *Johnson & Johnson*, Pittsburgh, Pa.; Mrs. Addison W. Arthurs, Pittsburgh, Pa.; Mr. & Mrs. Willard I. Emerson, *Hemphill, Noyes, Graham, Parsons & Co.*, New York City; Mrs. Nathan K. Parker, Pittsburgh; Lewis B. Harder, *Harris, Upham & Co.*, New York City; Nathan K. Parker, *Kay, Richards & Co.*, Pittsburgh, Pa.

Birthday party given by Lonely Hearts Club in honor of George L. Martin, *International Bank*, New York (still celebrating his 39th)

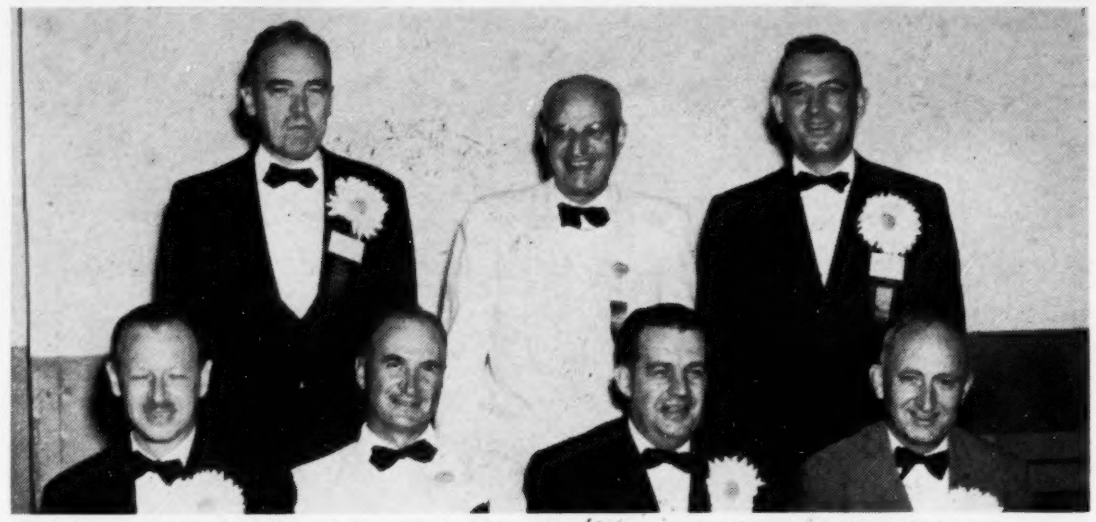
Charles A. Carey, *Harris Trust & Savings Bank*, Chicago; F. D. Farrell, *City National Bank & Trust Co.*, Kansas City, Mo.; Edward D. McGrew, *The Northern Trust Company*, New York; Mrs. Charles A. Carey; Lester H. Empey, *American Trust Company*, San Francisco; William H. Clark, *Merrill, Turben & Co.*, Cleveland; (Seated): Edward C. George, *Harriman Ripley & Co., Incorporated*, Chicago; John M. Maxwell, *The Northern Trust Company*, Chicago; Capt. Frank Pike

Sidney S. Blake, *H. M. Byllesby and Company, Incorporated*, Philadelphia; William K. Barclay, Jr., *Stein Bros. & Boyce*, Philadelphia; George W. Elkins, Jr., *Elkins, Morris & Co.*, Philadelphia; Edward G. Hopkinson, Jr., *Drexel & Co.*, Philadelphia

(Seated): F. D. Farrell, *City National Bank & Trust Co.*, Kansas City, Mo.; Mrs. William H. Morton, New York City; Mrs. Walter W. Craigie, Richmond, Va.; (Standing): Arthur R. Robinson, *Fidelity Union Trust Company*, Newark, N. J.; W. Paul Harper, *Boatmen's National Bank of St. Louis;* William T. King, *Rockland-Atlas National Bank*, Boston

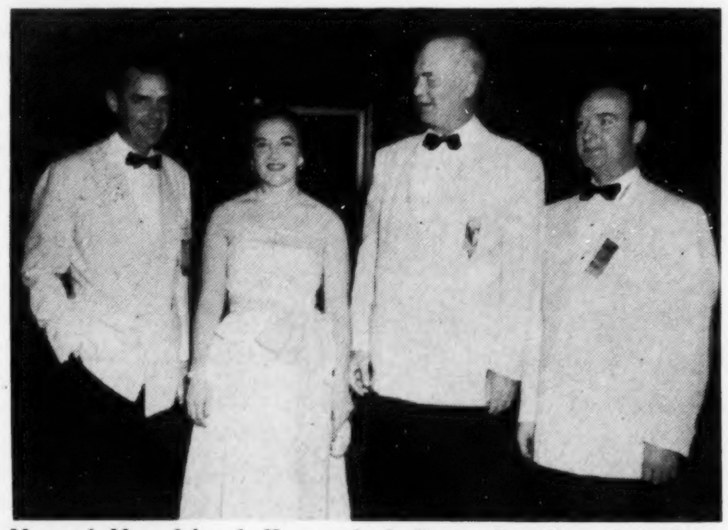
It's a "Jim Daisy"

(Standing): Harry A. Trees, *Paul H. Davis & Co.*, Chicago; Andrew S. Mills, *Newhard, Cook & Co.*, St. Louis; Joseph Ludin, *Dillon, Read & Co. Inc.*, New York City; S. E. Johanigman, *The Milwaukee Company*, Chicago; (Seated): John M. Maxwell, *Northern Trust Company*, Chicago; Lester H. Empey, *American Trust Company*, San Francisco; Walter W. Craigie, *F. W. Craigie & Co.*, Richmond; John F. Egan, *First California Company*, San Francisco

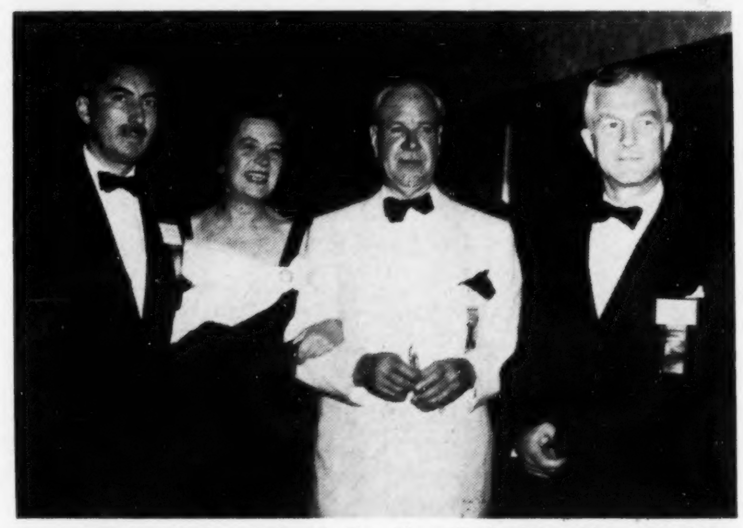


(Standing): Leslie J. Fahey, *Fahey, Clark & Co.*, Cleveland; Reginald M. Schmidt, *Blyth & Co., Inc.*, New York City; Charles C. Glavin, *First Boston Corp.*, New York City; (Seated): James E. Day, *Midwest Stock Exchange*, Chicago; Rudolf Smutny, *Salomon Bros. & Hutzler*, New York City; Albert C. Purkiss, *Walston, Hoffman & Goodwin*, New York City; Joseph L. Morris, *The Robinson-Humphrey Company*, Atlanta

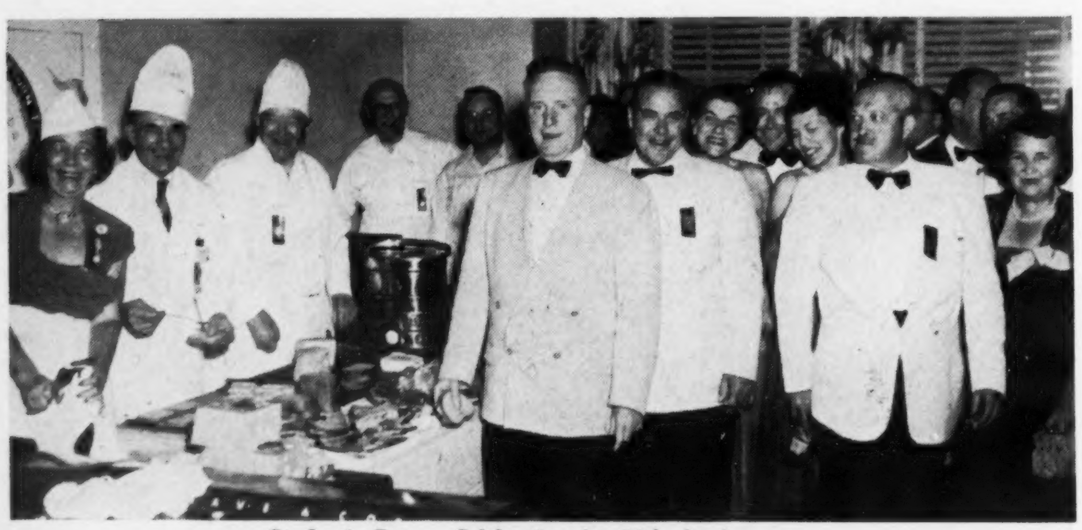
Mr. and Mrs. Arnold J. Kocurek, *Rauscher, Pierce & Co.*, San Antonio, Tex.; Mark A. Lucas, Jr., *Lucas, Eisen & Waeckerle, Inc.*, Kansas City, Mo.; Mr. and Mrs. William N. Edwards, *William N. Edwards & Co.*, Ft. Worth, Tex.



Mr. and Mrs. John J. Kenny, *J. J. Kenny Co.*, New York City; Francis P. Gallagher, *Kidder, Peabody & Co.*, New York City; John Brick, *Kidder, Peabody & Co.*, New York City



Henry Wallace Cohu, *Cohu & Co.*, New York City; Mr. and Mrs. Richard C. Noel, *Van Alstyne, Noel & Co.*, New York City; James C. Warren, *A. M. Kidder & Co.*, New York City



St. Louis Room—Celebrating its 34th Anniversary

Duffy's Tavern; proprietors: Ralph W. Davis, Louis J. Cross, Harry A. Trees and George S. McEwan, *Paul H. Davis & Co.*, Chicago

Mortimer A. Cohen, *Sterne, Agee & Leach*, Montgomery, Ala.; Waldo W. Mallory, *Clement A. Evans & Company, Inc.*, Atlanta, Ga.; Mrs. Cohen; Hugh D. Carter, Jr., *Courts & Co.*, Atlanta; Joseph W. Sener, *John C. Legg & Company*, Baltimore; Mrs. Sidney J. Mohr, Jr., Montgomery, Alabama

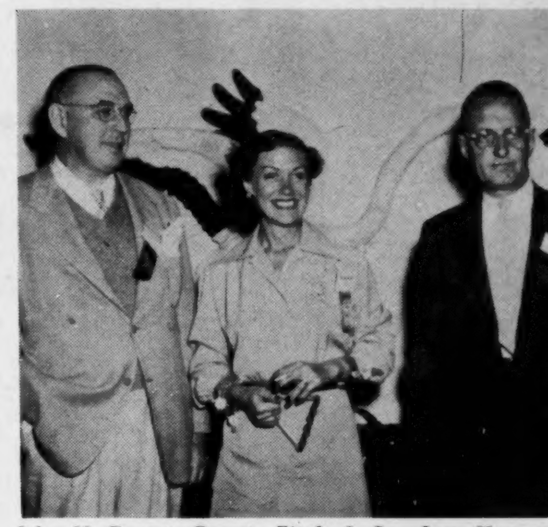
Mr. and Mrs. Gerald P. Peters, *Peters, Writer & Christensen, Inc.*, Denver, Colo.; E. Warren Willard, *Boettcher and Company*, Denver, Colo.; Harold D. Writer, *Peters, Writer & Christensen, Inc.*, Denver; Mr. and Mrs. Byron Hastings, *The Parker Corporation*, Chicago

Mr. and Mrs. Webster E. Pullen, *National City Bank of New York*; S. L. Descartes, *Government Development Bank*, Puerto Rico; Mr. and Mrs. Harold O. Polian, *Smith, Polian & Company*, Omaha, Neb.

Relax at Close of Business Sessions

Robert L. Harter, *Sutro & Co.*, San Francisco; Mr. & Mrs. Emil J. Pattberg, Jr., *First Boston Corp.*, New York City

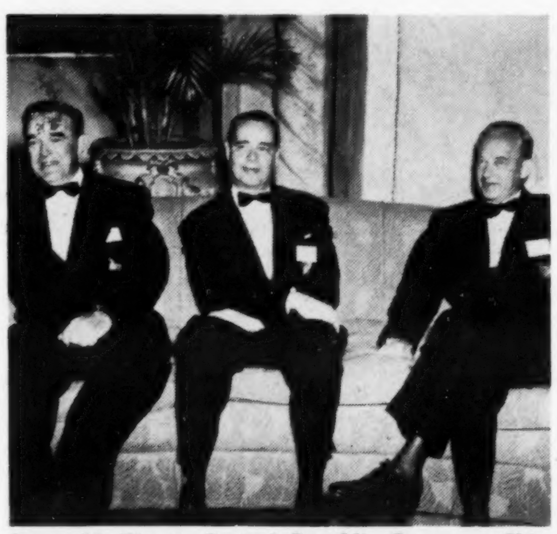
John A. Prescott, *Prescott, Wright, Snider Co.*, Kansas City, Mo.; Mr. & Mrs. Edwin B. Horner, *Scott, Horner & Mason, Inc.*, Lynchburg, Va.; Mr. & Mrs. Claude W. Wilhide, *Baker, Watts & Co.*, Baltimore, Md.; M. Carter Gunn, *Scott, Horner & Mason, Inc.*, Lynchburg, Va.



John H. Barret, *Barret, Fitch & Co., Inc.*, Kansas City, Mo.; Mr. and Mrs. Byron Hastings, *The Parker Corporation*, Chicago

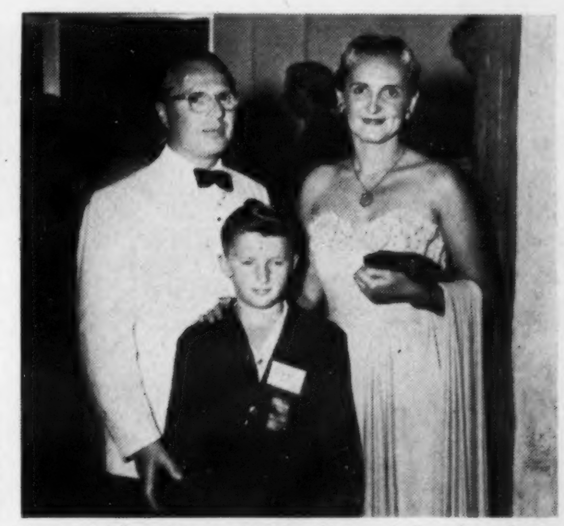
Kelton E. White, *G. H. Walker & Co.*, St. Louis, Mo.; Mr. and Mrs. Richard Mcrey, Jr., *A. G. Edwards & Sons*, St. Louis; Miss Mary R. Lincoln, *Investment Bankers Association*, Chicago; Cyrus B. Aldinger, *Fordon, Aldinger & Co.*, Detroit; Mrs. W. Guy Redman; Mrs. Kelton E. White, W. Guy Redman, *A. G. Edwards & Sons*, St. Louis; Mr. and Mrs. Harry Theis, *Albert Theis & Sons, Inc.*, St. Louis; Ralph Fordon, *Fordon, Aldinger & Co.*, Detroit, Mich.

Mr. & Mrs. Gordon Crouter, *DeHaven & Townsend, Crouter & Bodine*, Philadelphia; Mr. & Mrs. Edward B. Wulbern, *R. S. Dickson & Co., Inc.*, Charlotte, N. C.; Mr. & Mrs. Walter T. DeHaven, *DeHaven & Townsend, Crouter & Bodine*, Philadelphia; Mr. & Mrs. Richard A. Bigger, *R. S. Dickson & Co., Inc.*, Charlotte, N. C.



James M. Pigott, *Central Republic Company*, Chicago; Curtis B. Woolfolk, *Central Republic Company*, Chicago; Robert B. Whittaker, *F. S. Moseley & Co.*, Chicago

Mr. and Mrs. William H. Morton, *W. H. Morton & Co., Inc.*, New York City; Mr. and Mrs. Ernest W. Borkland, Jr., *Tucker, Anthony & Co.*, New York City; Mr. and Mrs. David H. Callaway, Jr., *First of Michigan Corporation*, New York City



Mr. and Mrs. George Geyer, *Geyer & Co., Inc.*, New York City, and Master Terry Geyer

Thomas Beckett, *First Southwest Company*, Dallas; William C. Porter, *Dittmar & Company*, San Antonio; Mrs. Thomas Beckett, Dallas; Mr. and Mrs. John H. Edwards, *R. J. Edwards, Inc.*, Oklahoma City, Okla.; William G. Hobbs, Jr., *Russ & Company, Inc.*, San Antonio, Tex.

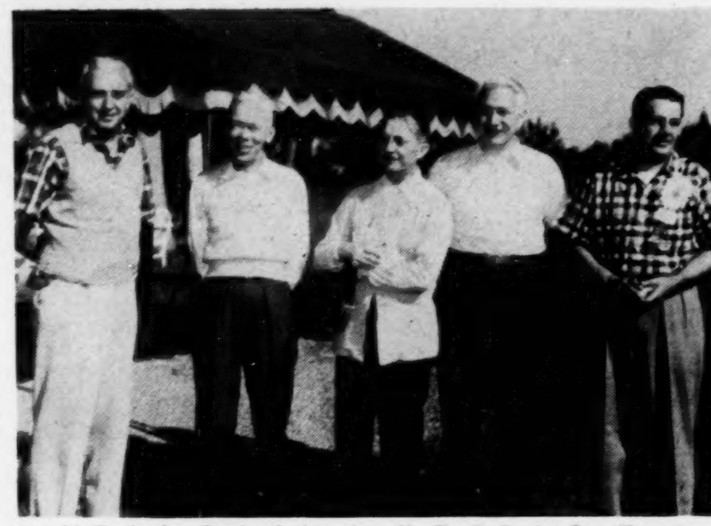
Mrs. Benjamin A. Walter, Los Angeles; Mr. and Mrs. Norman B. Ward, *Norman Ward & Co.*, Pittburgh; Mrs. Samuel K. Cunningham, Pittsburgh

Joseph T. Johnson, *The Milwaukee Company*, Milwaukee, Wis.; Wallace H. Fulton, *National Association of Securities Dealers, Inc.*, Washington, D. C.; Mr. and Mrs. Ralph E. Phillips, *Dean Witter & Co.*, Los Angeles; Mr. and Mrs. William K. Barclay, Jr., *Stein Bros. & Boyce*, Philadelphia

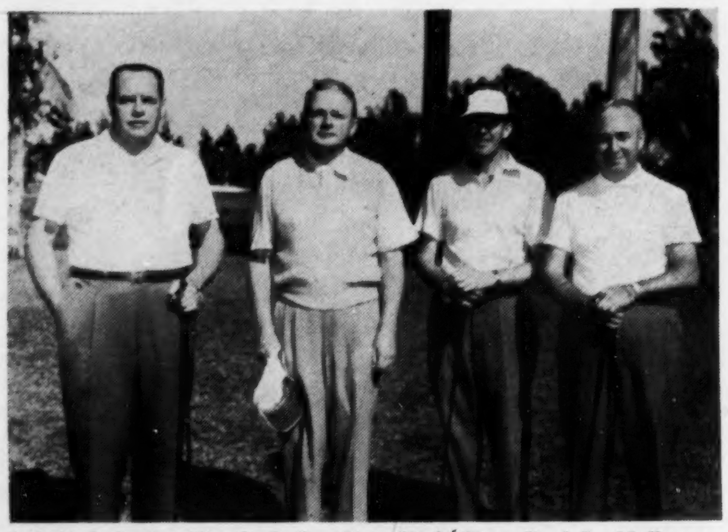
Golfers Take to the Links

Edward D. McGrew, ***Northern Trust Company***, New York City; F. D. Farrell, ***City National Bank & Trust Company***, Kansas City, Mo.; Ernest J. Altgelt, Jr., ***Harris Trust & Savings Bank***, New York City; W. Neal Fulkerson, Jr., ***Bankers Trust Company***, New York City, William H. Morton, ***W. H. Morton & Co., Inc.***, New York City

Mrs. Arthur Nelson, New York City; Mrs. C. Prevost Boyce, Baltimore, Md.; Rudolf Smutny, ***Salomon Bros. & Hutzler***, New York City; Mrs. V. Theodore Low, New York City; Mrs. F. Brian Reuter, Pittsburgh, Pa.

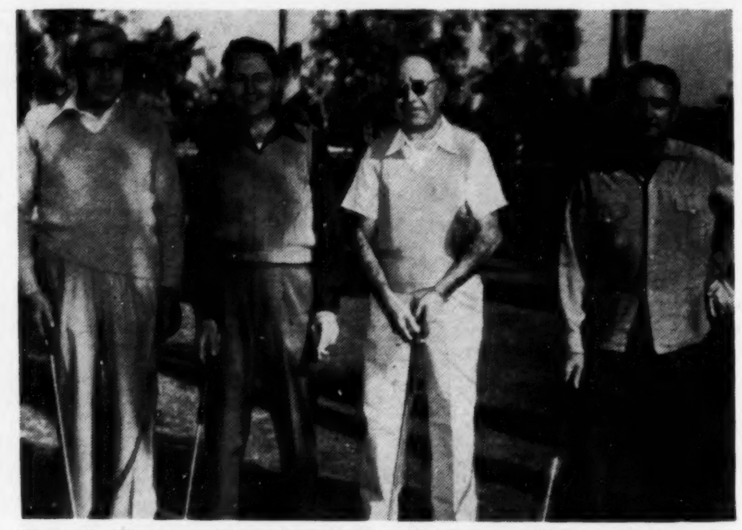


Arnold Tschudy, ***Bank of America, N. T. & S. A.***, San Francisco; Percy R. Hampton, ***Bell, Gouinlock & Company, Ltd.***, Toronto; Russell A. Kent, ***Bank of America, N. T. & S. A.***, San Francisco; John McG. Dalenz, ***Calvin Bullock***, New York City; Albert C. Purkiss, ***Walston, Hoffman & Goodwin***, New York City



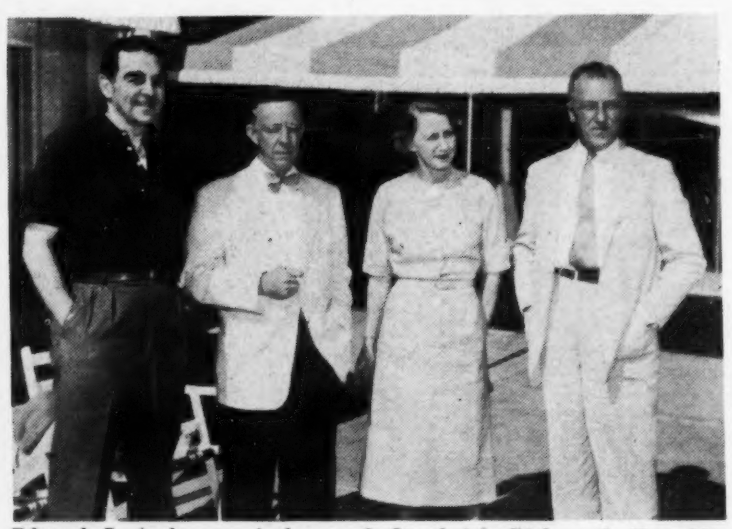
J. Dalton Couig, ***Hirsch & Co.***, New York City; Paul L. Mullaney, ***Mullaney, Wells & Company***, Chicago; Daniel T. Pierce, Jr., ***Hirsch & Co.***, New York City; Monroe V. Poole, ***Geo. B. Gibbons & Company, Inc.***, New York City

Donald C. Lillis, ***Bear, Stearns & Co.***, New York City; Charles McK. Lynch, Jr., ***Moore, Leonard & Lynch***, Pittsburgh, Pa.; Gustave L. Levy, ***Goldman, Sachs & Co.***, New York City; V. Theodore Low, ***Bear, Stearns & Co.***, New York City

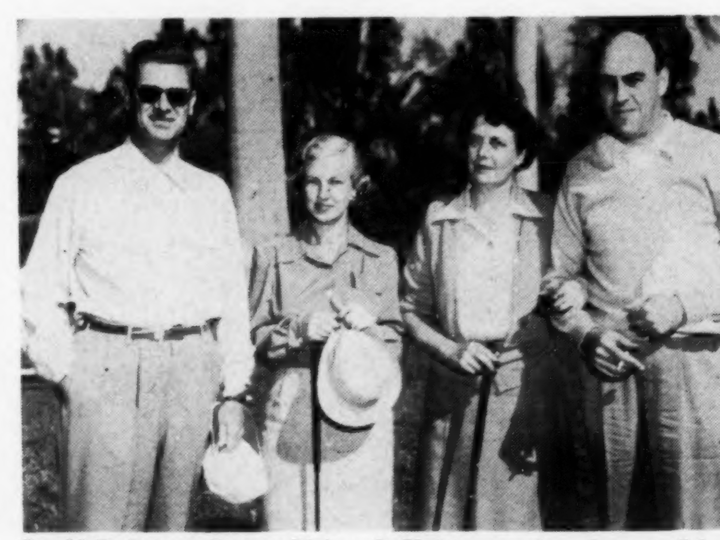


Chas. J. Fleming, ***Hanrahan & Co.***, Worcester, Mass.; William C. Porter, ***Dittmar & Company***, San Antonio, Tex.; C. Comstock Clayton, ***Clayton Securities Corp.***, Boston; Webster E. Pullen, ***National City Bank of New York***

Jesse P. Donnally, ***Peoples National Bank***, Charlottesville, Va.; Edward K. Dunn, ***Robert Garrett & Sons***, Baltimore; Bayard Dominick, 2nd, ***Dominick & Dominick***, New York City; Edward H. Robinson, ***Schwabacher & Co.***, New York City



Edward C. Anderson, ***Anderson & Strudwick***, Richmond, Va.; Mr. and Mrs. Chapin S. Newhard, ***Newhard, Cook & Co.***, St. Louis; Norbert W. Markus, ***Smith, Barney & Co.***, Philadelphia, Pa.

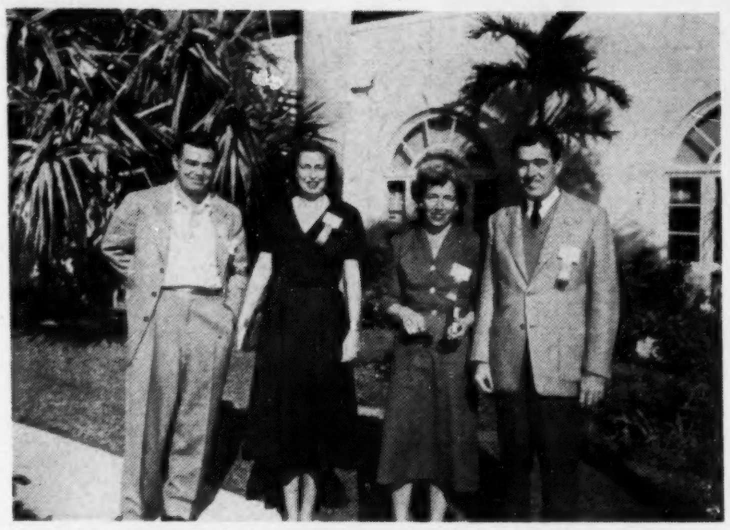


Gerald P. Peters, ***Peters, Writer & Christensen, Inc.***, Denver, Colo.; Mrs. William S. Hughes, Los Angeles; Mr. and Mrs. Harry I. Prankard, 2nd, ***Lord, Abbett & Co.***, New York City

Mr. & Mrs. E. Kenneth Hagemann, ***G. H. Walker & Co.***, St. Louis, Mo.; Elmer G. Hassman, ***A. G. Becker & Co.***, Chicago; Mrs. George L. Martin, New York; Raymond V. Condon, ***B. J. Van Ingen & Co., Inc.***, Chicago; George A. Newton, ***G. H. Walker & Co.***, St. Louis; George L. Martin, ***International Bank***, New York; John G. Heimerdinger, ***Walter, Woody & Heimerdinger***, Cincinnati

Mr. & Mrs. Benjamin A. Walter, ***Bingham, Walter & Hurry***, Los Angeles; Mr. & Mrs. Edward S. Johnston, ***Wood, Gundy & Co., Inc.***, New York City; Harcourt Vernon, ***Wood, Gundy & Co., Inc.***, Chicago

With Competition Keen



Mr. & Mrs. John P. Labouisse, *Howard, Weil, Labouisse, Friedrichs & Company*, New Orleans; Mr. & Mrs. Alfred Stalker, *Kidder, Peabody & Co.*, New York City

Rupert H. Johnson, *R. H. Johnson & Co.*, New York City; Albert R. Hughes, *Lord, Abbett & Co.*, New York City; Thomas B. Krug, *Bioren & Co.*, Philadelphia

Mr. and Mrs. Cornelius Shields, *Shields & Company*, New York City; John Quinn, guest; Mr. and Mrs. Macrae Sykes, *Shields & Company*, New York City

James H. Lemon, *Johnston, Lemon & Co.*, Washington, D. C.; Palmer Watling, *Watling, Lerchen & Co.*, Detroit; Mark Sullivan, Jr., *Auchincloss, Parker & Redpath*, Washington, D. C.; Marion H. Cardwell, *J. J. B. Hilliard & Son*, Louisville

Milton G. Hulme, *Glover & McGregor, Inc.*, Pittsburgh, Pa.; Norman B. Ward, *Norman Ward & Co.*, Pittsburgh; Bertram M. Wilde, *Janney & Co.*, Philadelphia; Wallace M. McCurdy, *Thayer, Baker & Co.*, Philadelphia, Chairman of Golf Committee

Joseph L. Morris, *The Robinson-Humphrey Company*, Atlanta; Quitman R. Ledyard, *J. C. Bradford & Co.*, Nashville, Tenn.; Phillips T. Barbour, *The Bond Buyer*, New York City; Charles W. Warterfield, *Cumberland Securities Corporation*, Nashville

Mr. & Mrs. Richard Morey, Jr., *A. G. Edwards & Sons*, St Louis, Mo.; Mr. & Mrs. Russell E. Siefert, *Stern Brothers & Co.*, Kansas City, Mo.

George S. Channer, Jr., *Channer Securities Company*, Chicago; Mr. and Mrs. E. Kenneth Hagemann, *G. H. Walker & Co.*, St. Louis; Gilbert M. Mears, *G. H. Walker & Co.*, Providence, R. I.

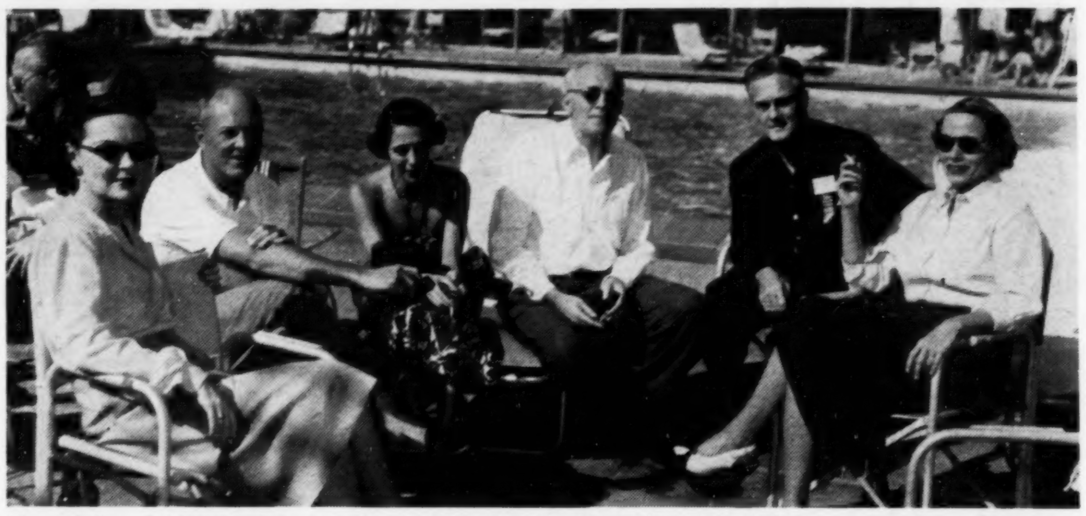
Mr. & Mrs. Claude W. Wilhide, *Baker, Watts & Co.*, Baltimore; Leroy A. Wilbur, *Stein Bros. & Boyce*, Baltimore; Robert L. Harter, *Sutro & Co.*, San Francisco

Mr. & Mrs. George F. Noyes, *The Illinois Company*, Chicago; Alden H. Little, *Investment Bankers Association*, Chicago; Mr. & Mrs. John S. Loomis, *The Illinois Company*, Chicago

Warren D. Williams, *Ball, Burge & Kraus*, Cleveland, Ohio; Mrs. Dana F. Baxter, Cleveland; Mrs. Raymond V. Condon, Chicago; Dana F. Baxter, *Hayden, Miller & Co.*, Cleveland; Mrs. James G. Couffer, New York City; Russell J. Olderman, *Olderman, Asbeck & Co.*, Cleveland; Mrs. Warren D. Williams, Cleveland

Sports Offer Diversion at Close of Business

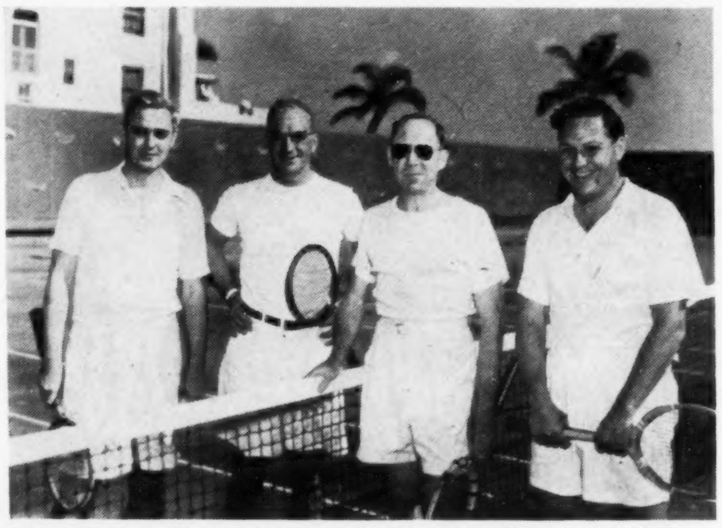
Ernest W. Borkland, Jr., *Tucker, Anthony & Co.*, New York City; Mr. & Mrs. David B. McElroy, *J. P. Morgan & Co. Incorporated*, New York City; Mrs. Wright Duryea, New York City; Mrs. Ernest W. Borkland, Jr.; Wright Duryea, *Glore, Forgan & Co.*, New York City



Mrs. Roby Robinson, Atlanta, Ga.; Alexander Yearley, IV, *The Robinson-Humphrey Company*, Atlanta, Ga.; Mrs. Gustave L. Levy, New York City; Henry B. Tompkins, *The Robinson-Humphrey Company*, Atlanta; Richard W. Courts, *Courts & Co., Atlanta;* Mrs. Alexander Yearlev, IV, Atlanta

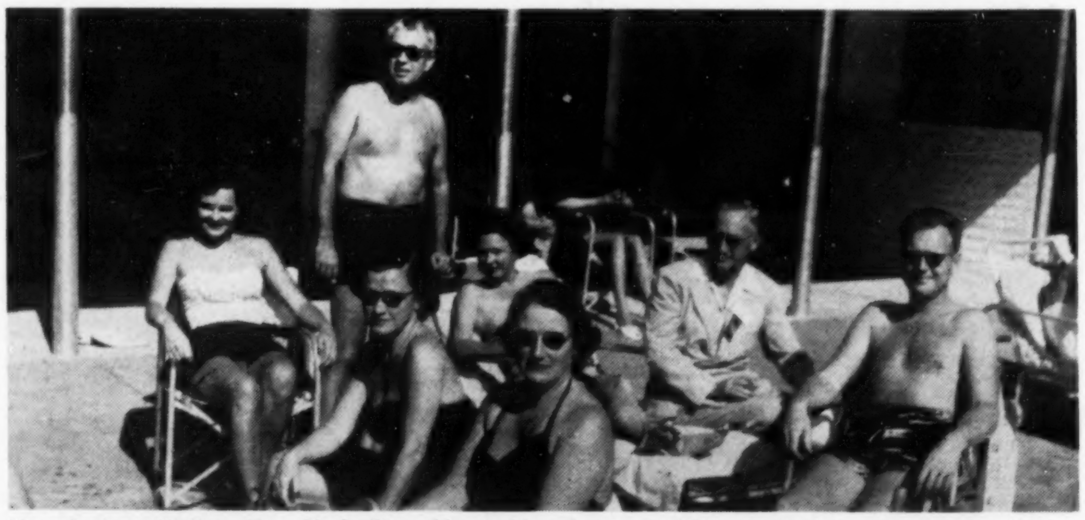
Sidney G. Duffy, *Blyth & Co., Inc.*, New York City; Harold H. Sherburne, *Bacon, Whipple & Co.*, New York City; Elizabeth Eyre, guest; Edward Glassmeyer, *Blyth & Co., Inc.*, New York City

S. B. Smith, *The Northern Trust Company of Chicago;* Mrs. Joseph R. Neuhaus, Houston, Texas; Mr. & Mrs. Hal H. Dewar, *Dewar, Robertson & Pancoast*, San Antonio, Texas



Robert B. Blyth, *National City Bank of Cleveland;* George B. Kneass, *Philadelphia National Bank*, Philadelphia, Pa.; Dillman A. Rash, *J. J. B. Hilliard & Son*, Louisville, Ky.; Jack R. Staples, *Fulton, Reid & Co.*, Cleveland

Mrs. Joseph W. Dixon, New York City; Seabourn R. Livingstone, *S. R. Livingstone & Co.*, Detroit, Mich.; Peter I. B. Lavan, *American Securities Corporation*, New York City; Hempstead Washburne, *Harris, Hall & Company*, Chicago; Emmett F. Connely, *American Securities Corporation*, New York City; Mrs. Hempstead Washburne



Mrs. Graham Walker, New York City; Mr. & Mrs. Lewis J. Whitney, Jr., *Dempsey-Tegeler & Co.*, Los Angeles; Frederick W. Straus, *Straus & Blosser*, Chicago; Graham Walker, *Joseph McManus & Co.*, New York City; (in front) Mrs. Eugene Truchold, New York City and Mrs. William H. Gregory, Jr., New York City

Mrs. Alfred Rauch, Philadelphia; Mrs. D. Dean McCormick, Chicago; Bertram M. Wilde, *Janney & Co.*, Philadelphia; Mrs. John C. Hagan, Jr., Richmond, Va.

Mr. & Mrs. Ernest J. Altgelt, Jr., *Harris Trust & Savings Bank*, New York City; Mr. & Mrs. George E. Clark, *Adamex Securities Corporation*, New York City

Mrs. Salim L. Lewis, New York City; Mrs. James A. Cranford, Jacksonville, Fla.; Howard Finney, Jr., *Bear, Stearns & Co.*, New York City

Continued from page 44

In Attendance at IBA Convention

McLAUGHLIN, EDWARD M.
Paine, Webber, Jackson & Curtis, New York

McLELLAN, PHILIP*
Vance, Sanders & Company, Boston

MEAD, W. CARROLL*
Mead, Miller & Co., Baltimore

MEANS, JAMES W.*
Courts & Co., Atlanta

MEARS, GILBERT M.
G. H. Walker & Co., Providence

METZNER, R. H.
Central National Bank of Cleveland, Cleveland

MEYER, Jr., LOUIS
Stern, Frank & Meyer, Los Angeles

MEYER, Jr., MAURICE*
Hirsch & Co., New York

MEZGER, WILLIAM W.
G. C. Haas & Co., New York

MIGEL, RICHARD H.
King, Quirk & Co., Incorporated, New York

MILLER, GLENN R.
Otis & Co., Cleveland

MILLER, JAMES K.
The Dominion Securities Corporation, New York

MILLER, LEWIS
The First National Bank of Chicago, Chicago

MILLS, ANDREW S.*
Newhard, Cook & Co., St. Louis

MINOR, STANLEY N.
Pacific Northwest Company, Seattle

MITCHELL, ROBIE L.*
Mitchell & Pershing, New York

MOHR, Jr., SIDNEY J.*
Thornton, Mohr & Co., Montgomery

MONTAYNE, CARLETON
Miami Daily News, Miami

MONTGOMERY, HARRY T.
Associated Press, New York

MOORE, RODERICK D.*
Branch, Cabell & Co., Richmond

MORELAND, J. MARVIN*
Rotan, Mosle and Moreland, Galveston

MOREY, Jr., RICHARD*
A. G. Edwards & Sons, St. Louis

MORGAN, Jr., C. GERARD*
John C Legg & Company, Baltimore

MORGAN, WALTER L.*
Wellington Distributors, Inc., Philadelphia

MORGAN, II, WILLIAM B.*
Stroud & Company, Incorporated, Philadelphia

MORRIS, CHARLES K.
F. S. Yantis & Co., Incorporated, Chicago

MORRIS, JOSEPH L.
The Robinson-Humphrey Company, Atlanta

MORSE, FRANK H.*
Lehman Brothers, New York

MORSE, WALTER E.*
Lehman Brothers, New York

MORTON, WILLIAM H.*
W. H. Morton & Co., Inc., New York

MOSS, JAMES W.
Preston, Moss & Co., Boston

MOULTON, FRANCIS*
R. H. Moulton & Company, Los Angeles

MUDGE, LOUIS G.
International Bank, New York

MUIR, EDWARD D.*
Russ & Company, Inc., San Antonio

MULLANEY, PAUL L.
Mullaney, Wells & Company, Chicago

MULLINS, FREDERIC P.
A. E. Masten & Company, Pittsburgh

NAUMBURG, CARL T.
Stern, Lauer & Co., New York

NELSON, ARTHUR*
Burnham and Company, New York

NELSON, Jr., EDWARD H.
Clement A. Evans & Company, Inc., Atlanta

NEUHAUS, JOSEPH R.*
Underwood, Neuhaus & Co., Houston

NEWBORG, LEONARD D.
Hallgarten & Co., New York

NEWBY, MRS. BETTY A.
T. Nelson O'Rourke & Co., Daytona Beach

NEWCOMB, MACDONALD G.
Federal Land & Intermediate Credit Banks, New York

NEWHARD, CHAPIN S.*
Newhard, Cook & Co., St. Louis

NEWTON, GEORGE A.
G. H. Walker & Co., St. Louis

NICHOLS, Jr., DONALD E.
Journal of Commerce, Chicago

NIX, ALLEN J.
Riter & Co., New York

NOEL, RICHARD C.*
Van Alstyne, Noel & Co., New York

NOLL, GERHARD B.*
Kebbon, McCormick & Co., Chicago

NORTH, LUDLOW F.*
Robert W. Baird & Co., Incorporated, Milwaukee

NOYES, GEORGE F.*
The Illinois Company, Chicago

OLDERMAN, RUSSELL J.
Olderman, Asbeck & Co., Cleveland

OSGOOD, ROBERT L.*
Vance, Sanders & Company, Boston

***Denotes Mr. and Mrs.**

OSTRANDER, LEE H.
William Blair & Company, Chicago

OTIS, C. BARREN*
The Bond Buyer, New York

OVERTON, JOSEPH A.
T. H. Jones & Company, Cleveland

OWEN, IRA D.
Allison-Williams Company, Minneapolis

OWEN, RALPH
Equitable Securities Corporation, Nashville

PACE, CLARK R.*
Business Week, New York

PAIDAR, LEONARD J.*
Goodbody & Co., Chicago

PARISH, II, HENRY
Carl M. Loeb, Rhoades & Co., New York

PARKER, E. CUMMINGS
Glore, Forgan & Co., Chicago

PARKER, NATHAN K.*
Kay, Richards & Co., Pittsburgh

PARKER, WILLIAM A.
The Parker Corporation, Boston

PARRY, SIDNEY L.
Association of Stock Exchange Firms, New York

PATTBERG, Jr., EMIL J.*
First Boston Corporation, New York

PATTERSON, EDWARD E., and PATTERSON, MISS MAY
Patterson, Copeland & Kendall, Inc., Chicago

PAUL, CLYDE L.
Paul & Lynch, Philadelphia

PERDUN, WINFIELD H.
Smith, Barney & Co., New York

PERRIGO, CHARLES R.*
Hornblower & Weeks, Chicago

PETERS, GERALD-P.*
Peters, Writer & Christensen, Inc., Denver

PETERSON, E. NORMAN
Equitable Securities Corporation, New York

PFEFFER, DELMONT K.*
The National City Bank of New York, New York

PHALEN, CLIFTON W.*
American Telephone & Telegraph Co., New York

PHILLIPS, EDWARD J.*
Samuel K. Phillips & Co., Philadelphia

PHILLIPS, RALPH E.*
Dean Witter & Co., Los Angeles

PHILLIPS, SPENCER
Emanuel, Deetjen & Co., New York

PIERCE, Jr., DANIEL T.*
Hirsch & Co., New York

PIETROWICZ, STEPHEN R.*
Chicago Tribune, Chicago

PIGOTT, JAMES M.
Central Republic Company, Chicago

PIPER, Jr., HARRY C.
Piper, Jaffray & Hopwood, Minneapolis

PODESTA, ROBERT A.
Cruttenden & Co., Chicago

POLIAN, HAROLD O.*
Smith, Polian & Company, Omaha

POOLE, MONROE V.*
Geo. B. Gibbons & Company, Inc., New York

POPPER, ELVIN K.
I. M. Simon & Co., St. Louis

PORTER, WILLIAM C.
Dittmar & Company, San Antonio

POSTLETHWAITE, J. RUSSELL*
Irving Lundborg & Co., San Francisco

PRANKARD, 2nd, HARRY I.*
Lord, Abbett & Co., New York

PRATT, ALBERT*
Paine, Webber, Jackson & Curtis, Boston

PRESCOTT, EDWARD P.*
Prescott, Hawley, Shepard & Co., Cleveland

PRESCOTT, JOHN A.
Prescott, Wright, Snider Co., Kansas City

PRESSPRICH, Jr., REGINALD W.*
R. W. Pressprich & Co., New York

PRITCHARD, HARRY N.*
Kebbon, McCormick & Co., Chicago

PROSSER, MALCOLM E.*
Seattle-First National Bank, Seattle

PULLEN, WEBSTER E.*
The National City Bank of New York, New York

PURCELL, ROBERT W.*
Investors Diversified Services, Inc., Minneapolis

PURKISS, ALBERT C.*
Walston, Hoffman & Goodwin, New York

PUTNAM, GEORGE
Putnam Fund Distributors, Inc., Boston

QUAIL, JOHN J.
Quail & Co., Davenport

QUIGG, JAMES F.
Paine, Webber, Jackson & Curtis, Chicago

QUIST, LEO L.
Harold E. Wood & Co., St. Paul

RAFFENSPERGER, G. WILLIAH
Raffensperger, Hughes & Co., Incorporated, Indianapolis

RAGGIO, JOHN
Raggio, Reed & Co., San Francisco

RAHEL, J. CLIFF
Wachob-Bender Corporation, Omaha

RAND, RICHARD N.*
Rand & Co., New York

RANKIN, HARLEY L.*
Goldman, Sachs & Co., Philadelphia

RASH, DILLMAN A.*
J. J. B. Hilliard & Son, Louisville

RATCLIFFE, MYRON F.*
Bache & Co., Chicago

RAUCH, ALFRED*
Kidder, Peabody & Co., Philadelphia

RAUSCHER, JOHN H.
Rauscher, Pierce & Co., Dallas

RAY, NORMAN C.
Kay, Richards & Co., Pittsburgh

RAYMOND, ANDREW J.
The Dominion Securities Corporation, New York

REDMAN, W GUY*
A. G. Edwards & Sons, St. Louis

REFSNES, JOSEPH E.
Refsnes, Ely, Beck & Co., Phoenix

REILLY, F. VINCENT
Commercial & Financial Chronicle, New York

REINHOLDT, Jr., JULIUS W.*
Reinholdt & Gardner, St. Louis

REIS, THOMAS J.*
Seasongood & Mayer, Cincinnati

REISSNER, FRANK L.
Indianapolis Bond and Share Corporation, Indianapolis

REUTER, F. BRIAN*
Mellon National Bank & Trust Co., Pittsburgh

REVITS, SAMUEL*
C. J. Devine & Co., New York

REX, WILLIAM M.*
Clark, Dodge & Co., New York

RITER, 3rd, HENRY G.*
Riter & Co., New York

ROBERTSON, WALTER S.
Scott & Stringellow, Richmond

ROBINSON, ARTHUR R.
Fidelity Union Trust Company, Newark

ROBINSON, EDWARD H.
Schwabacher & Co., New York

ROBINSON, ROBY*
The Robinson-Humphrey Company, Atlanta

RODDY, JAMES E.
Scharff & Jones, Inc., New Orleans

ROGERS, FREDERICK C.
Thomson & McKinnon, New York

ROSE, MIDDLETON
Laird, Bissell & Meeds, New York

ROSS, ALFRED J.*
Dick & Merle-Smith, New York

ROUSE, ROBERT G.
Federal Reserve Bank, New York

ROWE, ROBERT G.*
Stroud & Company, Incorporated, Philadelphia

ROWEN, PAUL R.
Securities & Exchange Commission, Washington

RUSSELL, Jr., PARIS SCOTT
Glore, Forgan & Co., New York

RYAN, JAMES
C. J. Devine & Co., New York

ST. PETER, CHARLES
San Francisco Examiner, San Francisco

SAVARD, J. ERNEST
Savard, Hodgson & Co., Inc., Montreal

SCANLAN, EARL M.*
Earl M. Scanlan & Co., Denver

SCHAPIRO, MORRIS A.*
M. A. Schapiro & Co., Inc., New York

SCHLEMMER, HAROLD P.
Schwabacher & Co., San Francisco

SCHLUTER, HAROLD J.
The First National Bank of Chicago, Chicago

SCHMICK, FRANKLIN B.
Straus & Blosser, Chicago

SCHMIDT, REGINALD M.
Blyth & Co., Inc., New York

SCHMIDT, WALTER A.*
Schmidt, Poole & Co., Philadelphia

SCHREDER, HAROLD X.
Distributors Group, Incorporated, New York

SCHUTZ, JOHN C.*
Chiles, Huey & Co., Omaha

SCOTT, BUFORD
Scott & Stringfellow, Richmond

SCRIBNER, JOSEPH M.*
Singer, Deane & Scribner, Pittsburgh

SENER, JOSEPH W.*
John C. Legg & Company, Baltimore

SEVING, FREDERICK T.*
Butcher & Sherrerd, Philadelphia

SHANKS, Jr., WILLIAM
The Bond Buyer, New York

SHARPE, WILLIAM P.
Mercantile-Commerce Bank & Trust Company, St. Louis

SHATTUCK, MAYO A.
Hausserman, Davison & Shattuck, Boston

SHAW, HERBERT I.
Vance, Sanders & Company, New York

SHELDON, JOHN G.
F. S. Yantis & Co., Incorporated, Chicago

SHEPARD, ROBERT O.*
Prescott, Hawley, Shepard & Co., Cleveland

SHERBURNE, HAROLD H.
Bacon, Whipple & Co., New York

SHIELDS, CORNELIUS*
Shields & Company, New York

SHREVE, WICKLIFFE*
Hayden, Stone & Co., New York

SIEFERT, RUSSELL E.*
Stern Brothers & Co., Kansas City

SIMMONS, RICHARD W.
Blunt Ellis & Simmons, Chicago

SIMONDS, CLARKE
G. H. Walker & Co., Providence

SIMONDS, RALPH W.*
Baker, Simonds & Co., Detroit

SIMONS, THOMAS B.*
Sidlo, Simons, Roberts & Co., Dnver

SIMONSON, Jr., HENRY J.
National Securities & Research Corporation, New York

SKINNER, DAVID L.
Harriman, Ripley & Co., Incorporated, New York

SLEZAK, G. EDWARD
Loewi & Co., Milwaukee

SMITH, DUDLEY C.*
Investment Bankers Association, Chicago

SMITH, ELWOOD D.
Harriman Ripley & Co., Incorporated, New York

SMITH, G. SELLERS
National Securities & Research Corporation, Philadelphia

SMITH, J. RAYMOND
Weeden & Co., Inc., New York

SMITH, NORMAN P.*
Merrill Lynch, Pierce, Fenner & Beane, New York

SMITH, SOLOMON B.*
The Northern Trust Company, Chicago

SMUCKER, OTTO M.
Sun-Times, Chicago

SMUTNY, RUDOLF*
Salomon Bros. & Hutzler, New York

SPACE, JULIAN A.*
Johnson, Lane, Space & Co., Inc., Savannah

SPENCE, W. FREDERICK
Robert Hawkins & Co., Incorporated, Boston

STABLER, C. NORMAN*
Herald Tribune, New York

STALKER, ALFRED*
Kidder, Peabody & Co., New York

STAPLES, JACK R.
Fulton, Reid & Co., Cleveland

STARRING, Jr., MASON B.
A. C. Allyn and Company, Inc., New York

STEARNS, GEORGE
The Economist, Chicago

STEARNS, PHILIP M.*
Estabrook & Co., Boston

STEPHENSON, EDWIN A.
The Chase National Bank of the City of New York, New York

STEPHENSON, F. KENNETH
Goldman, Sachs & Co., New York

STEVENSON, GETHRYN C.*
Bacon, Stevenson & Co., New York

STEVENSON, 3rd, ROBERT
Investment Bankers Association, Chicago

STITZER, RAYMOND D.
Equitable Securities Corporation, New York

STONE, Jr., FRED D.*
The Marine Trust Company of Buffalo, New York

STRADER, LUDWELL A.
Strader, Taylor & Co., Inc., Lynchburg

STRAUS, FREDERICK W.*
Straus & Blosser, Chicago

STRINGFELLOW, ROBERT B.
Gordon Graves & Co., New York

STUTZ, CARL N.
The White-Phillips Company, Inc., Davenport

SULLIVAN, JOHN J.
Bosworth, Sullivan & Co., Denver

SULLIVAN, Jr., MARK*
Auchincloss, Parker & Redpath, Washington

SULLIVAN, PEGGY
Investment Bankers Association, Chicago

SWANEY, JOHN
Century Distributors, Boston

SYKES, MACRAE*
Shields & Company, New York

TALBOT, O. JACK*
Northwestern National Bank of Minneapolis, Minneapolis

TAYLOR, HOWARD L.
Taylor and Company, Beverly Hills

TEGELER, JEROME F.*
Dempsey,Tegeler & Co., St. Louis

THAYER, ROBERT L.
Lehman Brothers, New York

Continued on page 62

Continued from page 61

In Attendance at IBA Convention

THEIS, HARRY*
Albert Theis & Sons, Inc., St. Louis

THOMAS, JOSEPH A.*
Lehman Brothers, New York

THORNBURGH, ROBERT W.
The W. C. Thornburgh Co., Cincinnati

THORS, J. EMERSON*
Kuhn, Loeb & Co., New York

TINDALL, JULIAN W.*
J. W. Tindall & Company, Atlanta

TITUS, Jr., WILLIAM A.*
Wertheim & Co., New York

TOMASIC, A. E.*
Thomas & Company, Pittsburgh

TOMPKINS, HENRY B.*
The Robinson-Humphrey Company, Atlanta

TORREY, ARTHUR S.*
W. C. Pitfield & Company, Ltd., Montreal

TREES, HARRY A.*
Paul H. Davis & Co., Chicago

TREUHOLD, EUGENE*
L. F. Rothschild & Co., New York

TRIGGER, RAYMOND*
Investors Dealers Digest, New York

TRIPP, JEROME C. L.
Tripp & Co., Inc., New York

TROST, MILTON S.*
Stein Bros. & Boyce, Louisville

TRUSLOW, FRANCIS ADAMS*
New York Curb Exchange, New York

TSCHUDY, ARNOLD
Bank of America, N. T. & S. A., San Francisco

TSOLAINOS, K. P.*
Baker, Weeks & Harden, New York

TURNER, ARTHUR C.*
New York Hanseatic Corporation, New York

UFFORD, HENRY M.
Calvin Bullock, Atlanta

UNDERHILL, ARTHUR J. C.
Arthur Wiesenberger & Co., New York

VANCE, CHARLES R.*
Vance Securities Corporation, Greensboro

VAN HART, GEORGE*
Salomon Bros. & Hutzler, New York

VAN METER, GALEN*
Investors Diversified Services, Inc., New York

VAN SLYCK, M.
Journal of Commerce, Chicago

VARNEDOE, SAMUEL L.*
Varnedoe, Chisholm & Co., Inc., Savannah

VENNEMA, HARRIS
Pennsylvania Banker, Philadelphia

VERNON, HARCOURT
Wood, Gundy & Co., Inc., Chicago

von GLAHN, Jr., THEODORE A.*
Solomon Bros. & Hutzler, New York

VRTIS, CHARLES S.
Glore, Forgan & Co., Chicago

WALBERT, RICHARD B.
Lehman Brothers, Chicago

WALDMANN, GEORGE R.*
Mercantile-Commerce Bank & Trust Co. (St. Louis), New York

WALKER, GRAHAM*
Joseph McManus & Co., New York

WALKER, LOUIS
G. H. Walker & Co., Hartford

WALTER, BENJAMIN A.*
Bingham, Walter & Hurry, Los Angeles

WALTERS, HARRY L.*
Girard Trust Company, Philadelphia

WARD, MURRAY*
Hill Richards & Co., Los Angeles

WARD, NORMAN B.*
Norman Ward & Co., Pittsburgh

WARREN, JAMES C.
A. M. Kidder & Co., New York

WARREN, ROBERT H.*
Geyer & Co., Inc., Boston

WARTERFIELD, CHARLES W.
Cumberland Securities Corporation, Nashville

WASHBURNE, HEMPSTEAD*
Harris, Hall & Company, Chicago

WATLING, PALMER
Watling, Lerchen & Co., Detroit

WATTS, Jr., SEWELL S.*
Baker, Watts & Co., Baltimore

WEBER, BROOKS D.*
Davies & Mejia, San Francisco

WEEDEN, FRANK*
Weeden & Co., San Francisco

WEHRHEIM, ROBERT V.*
The Philadelphia National Bank, Philadelphia

WENDT, GEORGE B.
The First National Bank of Chicago, Chicago

WEST, GERALD B.
Stone & Webster Securities Corporation, New York

WHEELER, HOWARD S.*
Leedy, Wheeler & Alleman, Inc., Orlando

WHITACRE, ROBERT H.*
First National Bank of Arizona, Phoenix

WHITBECK, BRAINERD H.*
The First Boston Corp., New York

WHITE, CHARLES B.*
Chas. B. White & Co., Houston

WHITE, KELTON E.*
G. H. Walker & Co., St. Louis

WHITESIDE, THOMAS
Chace, Whiteside, Warren & Sears, Inc., Boston

WHITNEY, Jr., LEWIS J.*
Dempsey-Tegeler & Co., Los Angeles

WHITTAKER, ROBERT B.
F. S. Moseley & Co., Chicago

WIESENBERGER, ARTHUR
Arthur Wiesenberger & Co., New York

WILBUR, LeROY A.
Stein Bros. & Boyce, Baltimore

WILDE, BERTRAM M.
Janney & Co., Philadelphia

WILHIDE, CLAUDE W.*
Baker, Watts & Co., Baltimore

WILLARD, E. WARREN
Boettcher and Company, Denver

WILLARD, FRANK A.
Reynolds & Co., New York

WILLIAMS, BENJAMIN D.
W. E. Hutton & Co., New York

WILLIAMS, WARREN D.*
Ball, Burge & Kraus, Cleveland

WILSON, H. WARREN*
Union Securities Corporation, New York

WILSON, WALTER W.
Morgan Stanley & Co., New York

WILTBERGER, ALFRED S.
Blyth & Co., Inc., Chicago

WINSOR, III, JAMES D.*
Biddle, Whelen & Co., Philadelphia

WITTER, Jr., DEAN
Dean Witter & Co., New York

WITTER, JEAN C.
Dean Witter & Co., San Francisco

WITTER, WENDELL W.
Dean Witter & Co., San Francisco

WOLFF, JAMES W.*
ZUCKERMAN, Smith & Co., New York

WOLL, ALBERT J. T.
E. M. Newton & Co., Boston

WOOD, DAVID M.*
Wood, King & Dawson, New York

WOOLFOLK, CURTIS B.
Central Republic Company, Chicago

WOOLFOLK, ROBERT M.*
Woolfolk & Shober, New Orleans

WOOLLOMES, J. PAUL*
Wulff, Hansen & Co., San Francisco

WRITER, HAROLD W.
Peters, Writer & Christensen, Inc., Denver

WULBERN, EDWARD B.*
R. S. Dickson & Co., Inc., Charlotte

WYNKOOP, BROOKE L.
Fahnestock & Co., New York

YANTIS, F. STUART*
F. S. Yantis & Co., Incorporated, Chicago

YEARLEY, IV, ALEXANDER*
The Robinson-Humphrey Company, Atlanta

YORK, Jr., EDWARD H.
Drexel & Co., Philadelphia

*Denotes Mr. and Mrs.

Continued from page 27

Petroleum and Natural Gas Industries Sound

was subsequently quoted to the American Bankers Association convention by an official of a leading oil company.

The domestic petroleum industry is geographically divided by the Rocky Mountains. One of the most important contributors to the improvement in the over-all statistical position of the domestic industry has been the marked reversal in conditions in California. In the order of their occurrence, the factors which produced this reversal were (a) the substantial shipments of residual fuel oil to eastern markets, (b) the unexpected cold weather in the spring of the year, (c) the outbreak of hostilities in Korea. The price structure for crude and products in California which had weakened last year, has been strengthened considerably in recent weeks. Earnings of major operators in California are reflecting improvement in that area to a marked degree.

It is significant that California, producing about 17% of our national crude oil total, has operated without state proration laws. It now appears that an oil conservation bill will be introduced at the 1951 General Session of the State Legislature, with full support of both major companies and independent operators.

Significant changes have occurred in the Western Canadian petroleum industry in the past 12 months.

No current official estimates of Canada's indicated oil reserves have been published but they are know to exceed the billion barrel mark by a wide margin. Time has not permitted an evaluation of discoveries in 1950 as they all have been made in the latter half of the year. However, results appear encouraging. Daily production for the week ended Oct. 30 averaged 102,650 barrels, practically all of which was being marketed in the Prairie Provinces. It should be noted that this production was restricted to "market" allowables or acceptances, whereas production under Conservation Board "allowables" would be well in excess of twice this figure.

Canadian demand for crude in 1950 has been estimated at around 340,000 barrels per day with the prospect of it increasing to around 380,000 barrels per day in 1951. Distribution of demand in 1950 is estimated at approximately 12% on the West Coast, 23% in the Prairie Provinces, 55% in Ontario and Quebec and 10% in the Maritime Provinces.

While Western Canadian crude production under Conservation allowables could be well in excess of 60% of total Canadian demand, geographical isolation of source and market intervenes and prevents oil being laid down at all points in Canada at prices competitive with crude from other sources. Existing facilities and the large 16-20 inch pipeline connecting Edmonton with the Great Lakes at Superior, Wisconsin, will permit supplying of all Prairie demand and the movement of around 55,000 barrels daily to Sarnia and other refining centers during the open navigation period. This flow is to be increased by looping and enlarged pumping facilities as new markets become available.

The existence of a large pipe line extending to Montreal from the ice-free port of Portland, Maine, plus the availability of ocean borne tanker crude to this point and the Maritime points, eliminates these areas for at least some time to come as a potential market for Western Canadian oil. The limited size of the British Columbia demand plus the competition of the low cost of movement of California crude by water to that area, high freight rates and high cost of construction of a pipe across the Canadian Rockies, have prevented volume sales of Prairie oil on the Pacific Coast.

On the other hand, the expenditure of nearly $350 million on exploration and development work in Canada by U. S. and Canadian companies during the past four years suggests strongly that wider markets for crude are anticipated. In any case, the establishment of adequate oil reserves in North America for strategical security purposes would appear to be regarded of sufficient importance to prevent moves which would strangle exploration by elimination of markets or reasonable return for risks taken.

The past year has seen important changes in the financing of oil and natural gas development in Western Canada, both as to the method or instrument of financing and the suppliers of the necessary capital. Financial institutions in both Canada and the U. S. A. appear to feel that oil and natural gas in Canada has been developed to a point where they may be regarded as a "business risk." Many of the medium and smaller companies have raised funds by issuing debentures which are convertible at the holder's option into common stock.

In order to finance purchases of Crown lease acreage in proven fields, particularly in the Redwater, numerous small companies have been formed and have issued against the property what might be termed "production debentures." These usually have a conversion feature and often carried a moderate bonus of common stock when issued. The capital appreciation possibilities have stimulated private and institutional interest in this class of paper although there are mixed feelings as to prices paid for some of this crown leasehold. As it is

probable that the Canadian petroleum industry will require in the vicinity of another billion dollars before it reaches maturity, the larger part of which will have to be raised by sale of securities, it is important that they retain their popularity.

Interest in the natural gas possibilities continues at a high level. Private estimates of indicated gas reserves in Alberta have been as high as 12 trillion cubic feet. However, an official estimate prepared by Dr. G. S. Hume, Director-General of Scientific Services for the Government of Canada, as at June 30, 1950 places them at 7.030 trillion cubic feet. Dr. Hume, in his report, states that few wells in Alberta have been drilled without getting some gas shows but absence of more complete data on many of these wells have prevented the inclusion of their potentialities in his calculations. His estimate may be regarded as being extremely conservative.

There would appear to be no question that Alberta's natural gas requirements in the foreseeable future are covered by many times over and that sufficient natural gas has been indicated to permit of export in volume to other Provinces and the U. S. A. This position has been achieved very largely as a result of drilling in search of oil and, at the time of writing, only one company is undertaking exploration for gas in Alberta.

The Alberta Oil and Natural Gas Conservation Board has continued its investigations and hearings on natural gas and it is expected that the Board's recommendations to the Alberta Government on the export of gas will be presented in the near future.

At the present time there are four diffrent organizations carrying on negotiations with a view to exporting gas westward to British Columbia and the Pacific Coast states. There are two companies seeking permission to export gas eastward to Saskatchewan and Manitoba, and southward to the states bordering on these provinces. One company is negotiating for export of natural gas to a large Montana power company while a recent entry on the list has the ambitious plan of transporting Alberta natural gas eastward as far as Montreal and intervening industrial centers.

At the time of writing, it is impossible to make predictions as to what will be the outcome of these negotiations, although even government officials are quite prepared to admit that export permits are definitely a prospect for 1951.

World production of crude oil recorded its fourth consecutive monthly all-time record in August 1950 when it reached an estimated 10,811,000 B/D. This figure compares with 9,052,000 B/D in August 1949. The gain of 1,759,000 B/D was divided 904,000 B/D to the United States and 855,000 B/D to other areas. Larger components of the latter were: Venezuela up 184,000 B/D, Iran up 149,000 B/D, Kuwait up 163,000 B/D, and Saudi Arabia up 135,000 B/D; these areas accounting for 631,000 B/D or 73% of the gain outside the United States. For the month, United States production comprised 52½% of the estimated world total.

At the end of 1949 United States companies were estimated to control 50 billion barrels of oil reserves in all countries, or 62% of 78 billion barrels, the estimated world total. American holdings in South America were placed at 74% of reserves there and at 42% of those in the Middle East. Although the world oil situation is important in the first instance to those companies which have these substantial foreign holdings, the mounting production as well as the relative size of reserves of areas other than the United States makes it clearer day by day that the United States industry is approaching a different relationship with world oil than has existed in the past. Prominent oil industry executives have estimated oil requirements in the United States of 8,000,000 barrels a day by 1960, a figure which appears conservative in the light of gains made over the past decale. Over the last two years we have been importers of oil on balance and, unless industry prognostications as to the rate of growth of reserves and productive capacity are widely in error, we will need increasing amounts of foreign oil as time goes on to supplement domestic output.

The Korean incident and the deepened threat of a Russian war have had a major impact on the world oil situation. Prior to that event, the focus of attention in the foreign area was the emergence of competitive patterns for world oil markets and the status of American interests in this respect. Now, although this continues important, the need to insure safe oil sources for emergency needs and for our long-range requirements becomes vital. Our logical sources, Canada and Venezuela, as well as other Latin American countries are given new interest under the circumstances. As previously mentioned, solution of Canadian transportation problems may be expedited. Venezuelan operations are entitled to more constructive appraisal.

Debate over the result of Russian invasion of the Middle East brings out three points of question. Would we go to war? What would Russia do with such oil if it captured it, without adequate refining facilities? Could remaining productive capacity supply markets now served by the Middle East, especially on a war footing? The principal reflection of Middle East problems to date has been the lagging market action of stocks of the large American companies with major holdings in the area. It is entirely possible that such stocks would react adversely to any new invasion threat, in spite of the fact that the risk already has been reflected in market prices and the fact that investments of these companies in the Middle East are relatively insignificant to their total interests.

Gross plant investment of the 30 oil companies at the close of 1949 was 19 billion 183 million, of which 2 billion 239 million, or only 11.6% was foreign property. This latter investment was divided 1 billion 318 million, or nearly 60% to production with the balance 14% to transportation, 16% to manufacturing, and 10% to marketing.

From a legislative viewpoint as affects the domestic petroleum industry, the most important development was the refusal of the U. S. Supreme Court to review its earlier decision in the tidelands case against Texas and Louisiana. One major oil company has subsequently brought suit against the State of Texas demanding return of royalties and bonus payments already made.

One of the most important legislative risks of the oil and natural gas producers is a recurring one—depletion allowances. Although twice rebuffed by Congress on its proposal to cut such allowances for tax purposes, the Administration has persevered on this theme and probably will renew its efforts under the current need to increase tax revenues. Closely related to this risk is the proposal to treat abandonments as capital losses, to be charged only against capital gains. The idea of any action which might reduce incentive to drill for oil or gas is hardly tolerable, especially at this time. These points, however, have become political matters, as well. It is to be hoped that the changed complexion of Congress since the election will safeguard the industry.

The natural gas industry also is still faced with the threat of legislation which would bring under Federal Power Commission jurisdiction the issuance of securities by natural gas companies. Several bills of this nature were offered during the last Congress and hearings were held by a House Interstate and Foreign Commerce Subcommittee on one of them—the so-called Crosser bill. No further action was taken by the Congress. Representative Crosser of Ohio is expected to reintroduce his measure and to push for some action on it during the coming session.

A controversial problem is the pending investigation by the Federal Power Commission of Phillips Petroleum to determine whether or not this company should be considered a natural gas company and subject to regulation of a wide scope on this basis. An affirmative decision by the Federal Power Commission would raise questions of far reaching effect to both natural gas and oil companies. Hearings on this matter have been deferred several times and now are scheduled for January, 1951. Large and small groups in both industries have applied for permission to participate in the defense of Phillips' position.

Another matter which could have a serious effect on both the oil and natural gas industries is the study just about to get under way by the Senate Committee on Interior and Insular Affairs, Chairmaned by Senator O'Mahoney. This study was sponsored by Senator Myers of Pennsylvania and authorized the Senate Committee to undertake a "full and complete investigation and study of the available fuel reserves of the United States and the present and probable future rates of consumption thereof," among other things, in order to formulate "a national fuel policy to meet the needs of the United States in times of peace and war, such policy to include the use of all fuels and energy resources except atomic energy." The committee also is authorized to study and recommend "methods of encouraging development to assure the availability of fuels adequate for an expanding economy and the security of the United States." Senator Myers' resolution was introduced shortly after President Truman recommended to Congress that a study be made by a special commission into the ills of the coal industry, including the effects of competitive fuels on that industry. The risks of the relationship of such a study and that sponsored by Senator Myers are obvious.

On Oct. 3, 1950 the Petroleum Authority for Defense was established under the Department of the Interior. Shortly thereafter Bruce K. Browne of Pan American Petroleum was appointed Deputy Administrator, reporting directly to the Secretary of the Interior. The PAD thus becomes an independent authority, corresponding in practically all respects to the PAW created under World War II. The latter operated with considerable success and industry concern over the regulation pattern has been relieved in a substantial way.

The attitude of security holders toward the petroleum industry in 1950 has been a favorable one. No changes of importance have appeared in large senior security holdings. As concerns the equities, trust funds of banks, college, university and foundation funds, and fire and casualty insurance companies already with sizable petroleum equity investments have maintained their position or added slightly to them on balance. Mutual investments funds have added proportionate to their overall portfolio growth and in some cases more so. New types of equity buyers as pension funds and life insurance companies have, based on available data, regarded the equities of particularly the domestic companies as worthy components of their initial venture into the field of common stocks.

An indication of the high regard in which oil and gas securities are held by institutional investors can be seen from the large proportion of the industry's debt financing provided by banks and insurance companies via private transactions. Data for the current year are incomplete and due to the marked drop in new capital requirements of the oil industry, the 1950 figures will not be too indicative. On the other hand, in 1949 and 1948 the oil and gas industries were much more active in seeking new capital.

Using figures compiled by the Petroleum Department of the Chase National Bank on the financing transactions of the oil industry, of the $585 million borrowed last year by corporations included in that bank's "30 Oil Companies" series, 70% was provided by banks and insurance companies. Combining the borrowings of other important oil companies, petroleum debt financing in 1949 totaled $843 million, 19.5% of which was provided by banks and 56% by insurance companies, so that over three-fourths of such new capital were obtained from these institutional sources. In 1948 the ratio of new borrowings obtained from banks and insurance companies had been even

Continued on page 64

Continued from page 63

Petroleum and Natural Gas Industries Sound

higher with 93½% of the $999 million total provided by these institutions.

It should be further noted that of the securities sold publicly, a portion was taken by institutions and also that an unreported quantity of bank loans was made to individuals and private corporations engaged in the petroleum industry for the purpose of financing the development of oil properties and the acquisition of assets.

It is also germane to the subject to point out that a very high proportion of the debt capital requirements of the sharply expanding natural gas transmission and distributing fields has been provided by institutional sources. In the first nine months of 1950, of the $320 million total debt financing undertaken by major long distance natural gas transmission lines, $199 million, or 62%, was obtained through private bond sales. Similarly, of the $364 million of bonds sold by major natural gas distributing companies during the same period, $85 million was obtained from private sources. (The latter proportion was lowered by the fact that almost $200 million of refunding operations by one company inflated the publicly financed total.)

In turning to natural gas an item of a bridge nature arises, namely that an estimated 60%-70% of the natural gas reserves of the United States are held by the petroleum industry.

On Dec. 31, 1949 proved reserves, as estimated by the American Gas Association Committee on Natural Gas Reserves, were 180.38 trillion cubic feet. In 1949 the additions to proved reserves amounted to 12.76 trillion cubic feet, while withdrawals amounted to 6.25 trillion cubic feet, producing a net gain in proved reserves of 6.51 trillion cubic feet. In each of the past seven years the annual additions to proved natural gas reserves have exceeded the annual withdrawals.

Gas withdrawals in 1950 should exceed the 1949 rate by at least 20%, which would indicate total withdrawals of about 7.5 trillion cubic feet. Development and exploratory activity for oil and gas in 1950 has proceeded at approximately the 1949 rate with about 470 geophysical parties surveying potential oil and gas bearing areas and more than 9,000 oil and gas wildcat wells being drilled outside of proved areas. In relation to wildcat wells drilled in 1949 additions to proved reserves were less than in previous years; however, the actual addition of 12.7 trillion cubic feet, compared with an average for the three years 1947 to 1949 of 12.5 trillion cubic feet. Additions to proved reserves in 1950 should exceed by a considerable margin the 12.7 trillion cubic feet added in 1949. The reason for this estimate in the intensive and successful development work in the Tidelands area of the Louisiana Gulf. In one block of 10,000 acres alone approximately five trillion cubic feet of reserves have been proved. It is therefore estimated that the increase in the proved reserves of natural gas at the close of 1950 will exceed the net increase achieved in 1949 and that proved reserves may approximate 187 trillion cubic feet.

The very great increase in the demand for natural gas for use as a fuel and as a raw material for chemical processes creates some question as to the adequacy of natural gas reserves. It would appear that proved reserves of 180 trillion cubic feet would be adequate for annual requirements of 6.25 trillion cubic feet; however, annual requirements are increasing repidly and may reach as much as 10 trillion cubic feet before 1960, in which case the present proved reserves might not justify further long-term investment in transmission lines. However, proved reserves need not be considered alone.

Furthermore, continuous discoveries of new fields constantly add to reserves and at a rate in excess of withdrawals. In an effort to appraise the potential supply of natural gas giving weight to deposits yet to be discovered, Mr. Lyon F. Terry, Vice-President of the Chase National Bank, presented before the American Gas Association a most interesting study which appraises the gas producing potential of areas yet to be developed. Mr. Terry concludes the minimum quantity of future supply of natural gas in the United States as follows:

Present proved reserves — 180 trillion cubic feet.

Future discoveries, Continental area—280 trillion cubic feet.

Future discoveries, Gulf Tidelands—50 trillion cubic feet.

Total future supply—510 trillion cubic feet.

The natural gas transmission system was materially expanded in 1950. Major projects completed had a total length of some 4,730 miles and an aggregate capacity of 1,650M MCF daily. The expansion was particularly important as it included projects which brought natural gas to the New York Metropolitan area, to Buffalo, New York, Detroit, Michigan Washington, D. C., and Baltimore.

Major projects under construction total about 4,540 miles and have a designed capacity of 1,450M MCF daily. The most important of these will add to the gas supplies of Chicago, Detroit and San Francisco, and will bring natural gas to important new areas in the southeastern states. The completion of the lines under construction will provide every major section of the nation with natural gas, with the exception of New England and the Pacific Northwest, and proposals before the Federal Power Commission would bring these areas into the natural gas territory.

The distributing utilities are still unable to supply the existing demand despite the additional quantities of gas made available by enlarged pipe line capacity. President J. F. Oates, Jr. of the Peoples Gas, Light & Coke Co. has recently estimated that some 750,000 potential space heating customers are unable to receive gas because of restrictions in various states upon new installations. These restrictions are necessitated by the inadequacy of present supplies available to the distributing utilities. The actual progress made in adding customers has been very great and it is estimated that one million more customers will be served with space heating in the 1950-51 season that there were in the winter season of 1949 when space heating customers numbered 7,217,000.

Rates for gas at the wellhead continue to move upward and new contracts are being signed in the general price range of from 10 cents to 14 cents per MCF as compared with three and four cents ten years ago. An interesting development was the establishment of minimum field prices by two states: Oklahoma, which set a minimum price of seven cents, and Kansas, which set a price of eight cents per MCF. The constitutionality of the Commission's authority to establish prices is being litigated. The Supreme Courts of both Kansas and Oklahoma have upheld the authority of the respective State Commissions to establish field prices.

An increasingly important problem of the transmission lines is that of stabilizing deliveries so as to assure a high load factor. The transmission companies now depend on the interruptible business to maintain a high load factor during the period of low residential and commercial demand. The underground storage is believed to offer the best answer to stabilizing deliveries. Such storage could be built up during the summer months and released during the winter season. The importance given to the storage problem is evidenced by the fact that five of the major transmission systems have budgeted a total of approximately $100 million for the expansion of underground storage facilities.

Three types of natural gas companies are available to the investor, namely, (a) utility companies distributing natural gas, (b) interstate transmission companies, and (c) primarily producing companies. Capital structures, earning power characteristics, dividend paying ability, markets, and other factors vary widely as between these groups. Here again as in the petroleum industry the investor has a wide range of choice as regards type of business and type of security.

Broadly speaking the capital ratios of these types of companies differ radically as compared to those of the petroleum industry. In the latter case, common stock equity predominates while the former are highly leveraged with both debt and preferred stock. Accordingly, the importance of the rapidly growing utility-transmission companies to the investment banker is much enhanced as compared to the petroleum industry. This is true not only in our functions as originators and underwriters of securities but also in our capacity as merchants of securities. A large portion of the capital requirements of utility-transmission companies are furnished by senior securities sold publicly or placed privately with institutional type investors. Common equities of the transmission companies, usually smaller in amount, have, in some respects, a somewhat less seasoned quality in the minds of some buyers, but are daily increasing in investment regard and in their contribution to portfolios. Equities of the distributing companies are usually far on the high quality side.

Broad and active unlisted markets exist for the shares of many large transmission companies as well as more limited markets for shares of certain natural gas producing companies.

Conclusion

Summarily, your committee finds the petroleum and natural gas industries to be in high investor regard and to afford continued money-making opportunities for our customers and ourselves. They are important and growing industries and they require us and our services in many capacities. With many of the advantages which certain types of their securities possess taxwise and inflationwise,

we should continue to be aware of our duty to our customers in assuring them adequate representation in these industries.

Long-term social and political trends are, as in many other industries, potentially of an adverse nature. Nationalization of all fuel industries would be a serious threat to all forms of investors, and we should not blind ourselves to the fact that control of oil, natural gas, and coal carries with it complete control of our nation. All transportation, heat, light, and power stem from these important raw materials, of which oil and natural gas now account for more than 55%.

Respectfully yours,

Oil and Natural Gas Securities Committee

Winfield H. Perdun, *Chairman;* Alan S. Anderson; George E. Clark; Noel M. Fowler; William S. Hughes; George E. Jones; John H. Rauscher; John W. Spurdle; Wesley A. Stanger, Jr.; Milton R. Underwood; Kenneth V. Zwiener.

Continued from page 8

Economic and Financial Conditions Affecting Canada

and above this financial benefit, Canada's greater self sufficiency in such a vital wartime commodity can surely be counted a blessing. Thanks mainly to this new industry, the Province of Alberta estimates having a revenue surplus of approximately $65 million for the current fiscal year.

Industry of all kinds, heavy and light, now enjoying happier relations than heretofore with its labor element and with the advantages of recent years' large plant expansion, has been operating on a scale without precedent under peacetime conditions in our history. To mention but two important examples out of the many, production of steel ingots is estimated to reach 3.2 million tons in the current year. This is 11% higher than in the peak war year 1943 and no less than 110% higher than 10 years ago. Similarly, volume of aluminum is now running at the rate of slightly more than 400,000 tons annually, which is 67% in excess of the 1943 year and 400% more than 10 years ago.

Newsprint, lumber and pulp are three other industries to have outstandingly increased production, and the first named commodity now takes pride of place as our most remunerative export.

Canada's total industrial production at the middle of this year in constant dollars, that is, after allowing for price changes was 1% greater than in the peak year 1943 and 84% greater than in 1939.

Gross National Product Has Risen

The unprecedented proportions to which the volume of the nation's business has risen in a general way has naturally been reflected in the country's gross national product, the total dollar value of its goods and services. A fairly early estimate of what this would be for the year 1950 was $16,300 million, but a subsequent revision raised the estimate to $17,000 million. This latter figure represents a 6.6% increase over 1949 and a 12% increase over the peak war year of 1943.

This is a truly remarkable demonstration of national earning capacity but, when contemplating the dollar results of this boom year and attempting to visualize how real and permanent will be the benefits, it would be prudent to bear in mind the inflationary forces which have been at work, especially during these last few months of international turmoil when their incidence on our economy has been very noticeable. Inflation in varying degrees of acuteness is the order of the day the word over and is creating universal anxiety as to its ultimate effects. It is particularly rife in the United States, a country to whose economic condition Canada is highly susceptible and responsive, and we are unquestionably feeling the impact of its influence now.

The hallmarks of our national inflation are all too readily discernible. The general cost of industrial materials rose 21.4% during the first nine months of this year, accompanied by sharp advances in commodity prices, wholesale and retail, consumer spending, labor wages, personal and corporate income and the total taxation revenue derived therefrom. Hand in hand with this upsurge, total Bank deposits and loans have mounted steadily and Stock Market prices have been markedly in the ascendant. The spiral has been working fast.

The cost of living index has mounted continually since the beginning of the curent year when it stood at 161.0. As at Sept. 1 it was 169.8—an increase in eight months of 5.5%. The sub-index on food prices during the same period rose by 9.7%. It is highly important that this rapid depreciation in the purchasing power of our currency should be arrested before it leads, as it may do, to recurring dissatisfaction and unrest in labor circles, and to the impairment of our now flourishing export trade.

Problem of Inflation

Inflation is everybody's problem. Its penalties penetrate every home and the responsibility for its arrest is general. It can only be held in check by personal restraint and economy on the part of the individual consumer but, as any such self-imposed discipline is contrary to the natural instinct, our government in the national interest, has wisely enacted measures designed to tighten up credit and to bridle consumer spending. Among them are restrictions in connection with instalment purchasing, curbs on housing and farm loans, and moderately increased taxation on corporation profits. As an additional credit tightening influence, the Bank of Canada changed the Bank rate for the first time since February, 1944 by raising it from 1½% to 2%, but, in sum, the measures so far taken are mild financial medicine for such a serious economic malady and more drastic treatment would seem imperative to contain the ravages of the disease.

Foreign Trade Outlook

Turning to our foreign trade, so vital to our economic welfare, there can be no complaint as to its progress, nor to the course of distribution it is taking. Since 1945 the dollar value, and to a lesser degree the actual volume of goods exchanged with other countries, has in each successive year surpassed that of the previous year, and 1950 has been no exception. Total transactions for the first seven months at $3,417.4 million exceeded those for the similar period of 1949 by $95 million, a 2.86% increase. Imports at $1,712.5 million advanced $72 million and exports at $1,704.8 million advanced $22.7 million. Our total exports for 1950 are now anticipated to top the two billion dollar mark — an all-time record — and probably bring the year's international trading account into a net favorable balance. Over the postwar years an interesting change in the geographical distribution of our foreign trade has been taking place, in that it has been gradually veering away from the traditional triangular pattern. The proportion of our total imports from the States has been declining by comparison with the proportion of the total from the rest of the world. Simultaneously, the proportion of our exports to the States has been increasing by comparison with the proportion of those to the other buying countries. During 1950 this trend has been more conspicuous than ever and the figures for the first seven months are quite significant. Our imports from the States declined by 6.8%, those from non-dollar areas rose by 3.2% (England 1.1%, all other countries 2.1%). On the other hand, our exports to the States during the same period rose by as much as 15.8%, while those to other countries declined by 15.5% (England 8.3%, all other countries 7.2%).

Canada's trade with the States, which has been growing proportionately greater ever since 1945, now comprises about two-thirds of our total international business, and that country is, at the present rate of trade, absorbing approximately 65% of our total exports.

This postwar geographical trade shift, so greatly accentuated this year, has been propelled of course by the dollar conservation policies of the non-dollar area countries, which involved cutting down their dollar imports and increasing their dollar exports. Their desired results have been most successfully achieved, and today the overall current trading dollar indebtedness of the non-dollar area is in sharply favorable contrast with what it was a year ago. So much so that the one-time famous dollar gap is no longer a matter of fear and preoccupation. While, however, dollar disequilibrium is much less acute, it is in several countries not yet a completely solved problem and, consequently, any drastic relaxation of their dollar conservation policies seems improbable for a while. Given, however, reasonably favorable international political conditions, further progress in eliminating dollar disequilibrium seems almost assured. In the meantime the fact that Canada has been able fully to compensate the loss of exports to the non-dollar area by heavier exports to the States is a reassuring and confidence-inspiring fact and a feather in the country's cap.

Predominant a part as the United States plays in our foreign trade, and closely attuned as our economy is to theirs, the fortunes

Continued on page 66

Continued from page 65

Economic and Financial Conditions Affecting Canada

of Great Britain as a powerful worldwide trader and leader of the sterling bloc—once our best customer and still our second best one—are worthy of comment.

Britain's Rehabilitation

Looking briefly over Britain's important past five years, one can clearly see that very substantial rehabilitation has been effected, albeit in fits and starts. In 1946 giant strides were made only to be halted in 1947 when the balance of payments crisis emerged. A renewed surge of progress in 1948 was followed by the period of anxiety which culminated in the September, 1949 devaluation of the pound. These upward and downward movements continued into the early part of 1950, when prospects became perceptibly brighter. Early misgivings about devaluation results seemed to lack justification and, although it could not be pretended that the country was out of the wood, it also could not be denied that production and exports were rising well, that gold and dollar reserves were being rapidly replenished, and that sentiment concerning the pound sterling's value was improving in foreign markets.

For the first nine months of 1950 the sterling area as a whole —and vis a vis the dollar area— showed a favorable balance on actual current trading. Great Britain's own trading account was in deficit but, with the addition of revenue from invisible exports, a very substantial overall surplus was acquired. The excellence of this recovery is reflected strikingly in that country's accumulated gold and dollar reserves. These at the time of sterling devaluation in 1949 had fallen to $1,340 million. On March 31, 1950 they stoor at $1,984 million, on June 30, 1950 at $2,422 million and on Sept. 30, 1950 at $2,756 million. More than doubled in a year. Within three weeks of the last mentioner date these reserves were further strengthenel by no less than $506,000,000. A goodly part of this latter sum, however, was "hot" money suddenly pumped in from countries abroad, including the United States, and suspected to be for exchange speculation purposes. This influx, even though of unwelcome character, was strong evidence of rebirth of confidence in the value of the pound sterling and expressive of an almost incredible reversal of the pessimistic opinions about it which prevailed universally a year ago. The British financial authorities aver however that, in spite of this spectacular recovery of gold and dollar reserves, their present total is still inadequate to provide full and safe currency protection or to justify any immediate revision of a basic nature in their Exchange Control and exchange rate policies. Be that as it may, there is little doubt about what the world is now thinking regarding the future exchange trend of the pound. Great Britain seems at last about to reap some reward for her years of trying austerity and effort but, in company with Canada, the States and other democracies, is now faced with the burden of heavier military defense expenditures, and it is logical to assume that the cost of rearming and stockpiling will hamper the rapidity with which she might otherwise have achieved full economic rehabilitation.

As we have seen, Great Britain has shown remarkable dollar recuperative power: the country's adverse balances on current trading account have been diminished in a striking way. Unless any radical reversal of this trend takes place, which seems unlikely, it would be reasonable to anticipate the early development of a more receptive market in Great Britain for Canada's exports and a revival of greater mutual trade of sustained character.

The outstandingly important Canadian financial event of the year was the recent unpegging of the exchange rate of the Canadian dollar, thus allowing such foreign exchange operations as are permissible under the Control structure to be transacted at open market rates.

At our last two Annual General Meetings I ventured to mention the dangers of habitual exchange rate fixing and also questioned the ability of the International Monetary Fund to keep the countries signatory to the Monetary Agreement faithful to their contractual undertakings when those countries came under the pressure of economic nationalism and self-interest.

Over a period of approximately 14 months and commencing with Great Britain's pound devaluation, 19 countries have altered their official rates in seemingly flagrant breach of the Fund's regulations, and it has become obvious that the Fund has proved incompetent to perform the functions for which it was designed.

Under the circumstances, little need be said on this aspect of the Canadian rate decision, unless it be that whereas the previous defections of other countries were only in respect to the permissible and stipulated percentages of rate alteration, Canada went one better and abandoned adherence to fixed rates completely.

Action Came at Appropriate Time

In Canada the business world welcomed the announcement of dollar liberation with relief and feelings that the authorities responsible for the change could be complimented on the way they had faced their problem and also on their vision and courage in abandoning an ingrained 11-year-old policy, blatant though the necessity for abandonment was. The transition from the fixed to the free was made at a very appropriate time and under most propitious circumstances, with a currency never higher than now in world esteem, a strong internal financial condition and an accumulation of gold and United States dollar eserves standing at the record sum of $1,789 million. This figure includes the "hot" money which really forced the issue but, allowing for that, it can still be considered ample backing for our currency and a safe protection against the vicissitudes of an open exchange market.

It is interesting to observe how pegged rates have promoted rather than deterred currency speculation. Lack of confidence in the pound encouraged the amassing of the short sterling position that forced the pound devaluation. Conversely, abundant confidence in the intrinsic value of the Canadian dollar created the speculative movement which drove Canada into a free market. Lack of faith in sterling shifted the sterling peg—faith in the Canadian dollar blew out our dollar peg.

With our market rate free now to move in response to supply and demand, speculation in our currency will not necessarily be completely eradicated, but it will certainly be greatly deterred by the automatic correction of rate resiliency. It is quite safe to say that the chances of any repetition of a speculative movement of the size and dangerous nature of the one which recently victimized Canada disappeared at the same time as the peg did. The one-way option the fixed rate provided no longer exists.

Wisdom of Action

There can be no questioning the wisdom of the decision to give the dollar its head and no doubting the necessity for it. Such a step had clearly become imperative in the protection of the national interest and the general economic

IBA PAST PRESIDENTS

1949 - 50

Albert T. Armitage

1948 - 49

Hal H. Dewar

1947 - 48

Julien H. Collins

one. It was justifiable from every point of view and there need be no apprehension as to its effects, be they short or long term.

Among the many advantages that will ensue, in addition to checking inflation, are that it will foster even greater confidence in our currency, encourage the inflow from abroad of the plentiful capital known to be seeking long-term investment in our industrial enterprises and in the development of our great natural resources. It will also stimulate the both-way transaction of our international business on a broader scale than hitherto, make for greater multilateral trading and direct it through the most profitable channels.

As to the behavior of the exchange market itself, during the first two or three days of freedom it showed a natural hesitancy in its quotations, but quickly settled into its stride and is today functioning normally and smoothly.

Canada has given the world a lead and set an example for other countries to follow, and the prospects of their being able to do so have become much rosier now that the dollar gap is disappearing with a rapidity beyond conception twelve months ago.

The international exchange picture has undergone a tremendous change during the past year.

The United States of America, in addition to their huge expenditures in Marshall Aid, loans, and other forms of financial assistance to soft currency countries has been carrying the physical and financial burden of the Korean war and of defensive preparations against a possible major conflict. This has necessitated, not only the increase and conservation of their own production and the severest constriction of their exports, but also a huge increase of strategic material imports at ever-soaring prices. All this had had a shattering effect on their balances of international payments, the extent of which can be appreciated by comparing their 1947 overall international trade surplus of $11,500 million with a small but actual deficit incurred for the three months' trading ending Sept. 30, this year. It is not surprising, powerful financially as the United States is, that under these circumstances, plus the additional one of a fly-by-night speculative movement of capital out of the country in our own direction, and ironically enough in England's also, a tendency for the exchange value of the United States dollar to decline in world markets is now perceptible.

Softening of U. S. Dollar an Advantage

The hardest of all currencies is softening to the exchange advantage of the softer currencies. This process is the natural and logical consequence of the international financial responsibilities the States has been carrying and which have become so much heavier in recent months, but it would be verging on the ridiculous to presume that the exchange value of the United States dollar can decline to the point where an exchange crisis would be created. The United States gold reserves have declined by $1,136 million since the beginning of this year, but, even after this loss, that country still holds 60% of the world's total stock of monetary gold for the protection of its currency. The hoarding over several years by one country of this high world percentage, and at times an even higher one, has been automatically retarding the much-needed replenishment of many other countries' reserves of gold which have remained deplorably weak. A broader and less one-sided spread of the metal than now exists is essential, as this is the only way by which the gold deficient currencies can be reliably and permanently strengthened. As this strengthening is so obviously desirable in the general world interest, the redistribution now taking place whereby the non-dollar countries' gold holdings are being improved at the expense of the United States holdings, should be a matter for satisfaction in the States rather than regret. It is a constructive movement towards attaining the long-wanted universal freedom of foreign exchange markets through which the international movement will flow with greater ease and with benefit to international trade and, consequently, to the States themselves. Looked at in this way, the diminution in the States' huge gold stocks can be considered by that country as a blessing in disguise and not a matter for apprehension.

Canada, embarking on an era of expansion that promises to be dynamic in character, but the benefit of which might possibly be circumscribed through insufficiency of population, is about to complete a year of great economic accomplishment. Unfortunately, however, and just as the fruits of a splendid postwar recovery appeared well within our reach, the outlook for the future has been dimmed by the mounting tension in world affairs. Universal rearmament is afoot and Canada, with her democratic allies, is engaged in the Cold War, the repercussions of which will profoundly affect the economies of all the countries in the world, but it is difficult to assess in any other than a broad way how our own economy will be affected. From now onwards a very much larger portion of our nation's resources must be devoted to defense. The immediate financial incidence of this necessity has been reflected in the September revision of this year's national budget which, based on the pay-as-you-go principle, increased certain existing taxes and imposed new ones to enable this year's total expenditure to exceed by $244 million the expenditure budgeted earlier in the year. This, however, is but the thin edge of the wedge, and we must anticipate, indeed we have been forewarned, that in 1951 very much heavier additional taxation of an all-round nature will be imperative. This prospective addition to existing taxation, which already absorbs over 25% of the gross national product, will not be easy to bear.

Canada's Defensive Program

Our defensive program will demand a further increase in productivity at a time when our economy is almost at full stretch and when reserves of industrial manpower are limited and liable to become more so if political developments demand that larger numbers enter the fighting services. Under this probable handicap, industry must nevertheless be switched and urged to faster tempo, with the main weight of the greater industrial effort falling on the industries making capital goods, such as machinery, vehicles, aircraft, ships, etc., and a considerable degree of dislocation must occur. Many are the aspects of this industrial transition which might be discussed, but they are an incidental to and do not alter the one fundamental and overriding fact that greater production destined for possible destruction must replace production destined for normal consumption to the enfeeblement of the latter. We must face the fact that this is the essence of our task and the goal towards which we must all steadily march.

From this transition which, in the interests of national security, cannot be shelved, no profit in the economic sense of the term can possibly be derived. On the contrary, it is obvious that, as the armament program gets progressively underway, its detrimental influences on the everyday consumer's standard of living must become increasingly severe. To what extent only time itself will tell. It is difficult to escape the conclusion that this will be the inevitable consequence of the nation's unhappy task, but there always remains the hope that, by working energetically towards a state of preparedness in collaboration with other democracies, we may help to arrest the march of communistic aggression and avoid a third world war. No price in the shape of present-day sacrifices would be too high to pay for the avoidance of such a catastrophe and, even if hopes prove vain and a trial comes, our present and future efforts will surely enable us the better to give a good account of ourselves.

Hazen Arnold Pres. Of Braun, Bosworth

TOLEDO, Ohio—Hazen S. Arnold has been elected President of Braun, Bosworth & Co., Incorporated, Toledo Trust Building, investment bankers, the company announced. Mr. Arnold, who has been Executive Vice-President since 1939, joined the firm in 1926. He has been active in various capacities in organizations connected with the investment banking profession, and is a former Vice-President of the Investment Bankers Association of America as well as a former Chairman of the Municipal Securities Committee of that Association. He is a director of the Indiana Glass Company.

Hazen S. Arnold

Walter M. Braun, former President and one of the founders of Braun, Bosworth & Co., has been elected Chairman of the board of directors. Other officers elected are: Fred A. Bargmann, Senior Vice-President; Clifton A. Hipkins of New York City, William H. Hammond of Chicago, and William M. Adams of Detroit, Vice-Presidents; Carl F. Bargmann, Vice-President and Treasurer; Franklin L. Schroeder, Vice-President and Secretary; and Norman J. Fields, Assistant Treasurer.

Fordon, Aldinger to Be N.Y.S.E. Member

DETROIT, Mich.—Ralph Fordon, partner in Fordon, Aldinger & Co., Penobscot Building, members of the Detroit Stock Exchange, on Dec. 21 will acquire membership in the New York Stock Exchange of the late Frank J. Foley. Other partners in the firm are Albert H. Aldinger and Cyrus B. Aldinger.

Dominick & Dominick To Admit 3 Partners

Dominick & Dominick, 14 Wall Street, members of the New York Stock Exchange, will admit John W. Spurdle, Hollis K. Thayer and Arthur C. Weimar to partnership on Jan. 1. Mr. Spurdle, who has been with the firm for many years, is Manager of the investment advisory and statistical departments.

Continued from page 4

The Business Outlook

building activity, were apprehensive that troubles would be encountered in the early fifties. Moreover, these authorities were not unmindful of their anxieties in late 1948 when building prospects looked somewhat less promising. In short, the defense program cannot be expected to sustain business activity at rates which prevailed prior to Korea because those rates were abnormally high.

Probable Building Output

The new credit and other controls afford support for this viewpoint. They have been imposed to correct the excesses of the boom, to conserve materials needed for defense, and to curb inflationary trends. We are told that Regulation X is designed to reduce non-farm residential starts from an estimated 1,350,000 units in 1950 to 850,000 in 1951. The latest F. W. Dodge estimate is that residential construction of 800,000 to 850,000 non-farm units would meet reasonable needs in 1951. This estimate assumes that present regulations will be modified some time next year to produce this result. Other estimates, based on differing assumptions, range from 400,000 to 600,000 residential starts in 1951. Still another source estimates total residential construction in 1951 at $6.7 billions compared with $12.3 billions in 1950, a net decline of nearly $5.5 billions, or about 27 percent, in all private construction in 1951.[1]

Probable Automobile Output

Production of passenger cars and trucks in the United States and Canada in 1950 may approximate 8,500,000 units, compared with an average annual production of about 5,300,000 units in the 1940-49 period. The combined effects of Regulation W and materials shortages may reduce 1951 output to two-thirds or less of the 1950 total. In addition to reduced output in these two key industries, similar factors will cause a substantial curtailment in a number of other industries.

1 "Business Week," Nov. 18, 1950, pp. 89-90.

Economic Impact Korean Troubles

Our Korean troubles not only caused a short-lived buying stampede by the ultimate consumer, but they also resulted in an avalanche of new orders to manufacturers. Many of these orders represented extravagant assumptions about future sales and fears of wartime shortages. When these orders were placed, the prospective delivery dates were lengthened. Under such conditions, the invariable experience is that orders are pyramided in the hope of securing larger early allocations of finished goods. This sudden and very large expansion of orders was responsible for the sharp rise of industrial production and prices, full employment, swollen payrolls and for much of the subsequent growth in bank loans. We are slowly realizing that a very considerable amount of civilian business has already been "borrowed" from 1951. Natural corrective forces will be more evident in 1951.

Inventory Investment Factor

Inventory fluctuations play a very important role in the ups and downs of business activity. Recently, a significant new study has been published on this subject.[2] It warrants special attention in our consideration of the business outlook. With scholarly caution, the author concludes that inventory investment is "the most volatile of the main components of output"; that usually the rate of fluctuation is larger than "in construction or in the flow of durable goods to either producers or consumers"; and that inventory contraction and expansion represents a "very considerable portion of the cyclical change in total output."[3] During five business cycles between 1919 and 1938, net change in inventory investment accounted on the average for about one-third of the change in our gross national product. While this particular study was largely confined to manufacturing inventories, the main conclusions would be additionally supported if adequate figures were available for total inventories, including inventories of ultimate consumers.

Spotty Business Ahead

We should give due weight to this very volatile factor which has such a profound influence on business activity. While back-logs are now at record highs, new orders in September fell somewhat below August levels. There are some indications that inventories are now beginning to grow in both dollar and physical terms. That growth will probably continue for several months unless goods move into direct consumption at a much more rapid rate than they have in the recent past. There is normally a lag of several months between the peak of production and inventory accumulation. Large inventory expansion superimposed on the unstable foundations of the pre-Korea boom may create special problems in the first half of 1951. Defense orders will ease the transition to better economic balance, but it is still doubtful that they will be large enough to prevent a noticeable but moderate slackening in production as civilian order back-logs are worked down. At best, we seem to be facing a period of somewhat spotty business conditions.

Price Resistance as Selling Problem

The full impact of higher manufacturing costs and prices has not yet been completely reflected in retail prices. Since consumers are now heavily in debt for past purchases and well stocked with goods, we may expect more prudent and cautious buying than we have experienced in the recent past. The real test of these higher prices lies ahead. Very probably, they will cause a decreased physical volume of sales. On the income side, lower physical volume does not mean more work for the wage earner. Wage increases will have uneven effects. Cut-backs will reduce substantial over-time earnings which have prevailed for many months. Large sectors of the population will not have increased income in 1951. Present and proposed taxes will take larger bites out of personal incomes. Many industries are facing difficult selling conditions.

2 Moses Abramovitz, "Inventories and Business Cycles," National Bureau of Economic Research, Inc., New York, 1950.

3 *Ibid*, p. 475.

Economic Aspects of Defense Program

There is no economic magic in defense expenditures. If we maintain this program on a pay-as-you-go basis, we will extract from the income stream what we pay out for military purposes. While the building of great stock piles of strategic materials adds to the demand and fosters stable or rising prices for such materials, it does not place demands on fabricating facilities until the stored products are used. We do not build planes, tanks and other arms nor feed and clothe larger armed forces in 1951 with products and materials to be grown or made in 1952 and subsequent years. However necessary defense expenditures may be, they are drafts on current production. There is that much less for civilian uses.

Defense Program No Guaranty of Business Boom

The best present guess is that defense expenditures may approximate 15 percent of our gross national product. Great as this

IBA PAST PRESIDENTS

1946 - 47

E. Hopkinson, Jr.

1945 - 46

Charles S. Garland

1943 - 44 - 45

John Clifford Folger

expenditure will be, it does not in itself provide a guaranty of continuation of boom conditions in the civilian economy. Inevitably, the program will cause considerable business unsettlement. We cannot assume that defense orders can be allocated with greater economic wisdom than free markets would allocate an identical volume of civilian business. The defense program is not a mere work-making device for giving new strength to weak and over-extended parts of the economy. To recognize very frankly the extremely difficult and complex nature of the defense problem and to cooperate with reasoned patience are prime requisites for its intelligent execution.

Need for Policies to Promote Confidence

Business confidence is the great and fragile force that shapes our business future. To preserve it, we need extreme care and caution in the exercise of the powers now granted under the Defense Act of 1950. Neither threats of "crack-downs" nor irresponsible talk about government regimentation will inspire this necessary confidence. What is feasible under partial mobilization is a matter of eextremely astute judgment—not of our capacity to produce but rather of our tolerance for particular restraits which are deemed necessary to secure the desired end. Our chief task now is to make certain that the non-defense part of the economy is enabled to maintain itself in a strong, healthy condition with neither too much nor too little government intervention. We need both public and private policies which contribute to this result.

Recent Price Movements Typical Wartime Experience

Next to future military developments, the price trend is a matter of the greatest public concern and a major factor in current business uncertainty. Recently, the official wholesale price index has moved slightly above the all-time high of August 1948. Since last June, the weekly wholesale price index has risen nearly 9 percent. When hostilities break out and the threat to world peace looms large, sharp advances in the general price level are the normal expectation. Past experiences under similar conditions are remembered. Consumers, distributors, manufacturers and speculators rush into markets to buy finished goods or raw materials which they believe will be in limited supply. Existing inventories are seldom large enough to meet these sudden, abnormal demands and prices rise rapidly.

The high prices persist until there is evidence that the demands will be met. Prices often move erratically for a considerable period as the military situation improves or deteriorates. The initial shock affects a broad range of prices; but afterward it is mainly concentrated on a narrower range of items, particularly prices of strategic materials. Somewhat later, higher raw material and other costs are reflected in the prices of finished goods. These added costs delay the return to more normal prices. Inventories grow and spotty price conditions occur in different lines.

Disparities in Price Changes

The wholesale price index is a weighted average. As such, it conceals the wide disparities in the degree of price changes among differing products. When we look at the break-down of the general index by broad groups, we find that since last June farm products have advanced about 10 percent while grain prices have moved only moderately higher and livestock prices have declined slightly. Food group average prices rose about 8.6 percent, but meat prices were fractionally lower. The textile products index is now up nearly 22 percent; chemicals, 18.6 percent; building materials, 8.4 percent; metals and metal products, 4.1 percent; and fuels and lighting materials, only 1.7 percent. Within each of these groups, of course, there are wide variations in percentage changes.

Effect of Disturbed Price Balance

It is important to understand these stresses and strains in the price structure. When these sudden changes in price relationships occur, business uncertainties multiply. We know that evenutally a new economic balance will be established as natural economic forces correct the extreme advances and raise prices in depressed groups, but the process requires time. The readjustment is usually difficult and costly. We are now confronted with a badly distorted price structure.

Direct Control No Solution

The problem cannot be solved by the imposition of direct government price controls. Such efforts would accentuate the current imbalance. No body of government regulators can successfully restore balance in the vast and intricate maze of price relationships. Under partial mobilization, no general freeze of price relationships is feasible; and with general mobilization, such a freeze can be only partially effective. It must be supplemented by production and ration controls. These restraints often do more damage than good because they create new obstacles to maximum output of needed goods.

More Promise in Money and Credit Restraints

In the economist's parlance, prices are exchange values expressed in terms of money. They depend not alone on the supply and demand for goods, but also upon the supply and demand for money and credit. When we restrain unsound expansion of money and credit supplies, we exert enormous pressure on prices and permit free markets to work out necessary price adjustments without adding oil to the fire. Under the Defense Act of 1950, the Federal Reserve Board has moved promptly to impose restrictions on the grant of installment and real estate credit. Within the limits of its powers, it has also moved with courage to check dangerous expansion of other forms of credit. How effective these and subsequent efforts may be remains to be seen.

Techniques of Credit Restraint

Unfortunately, in this field of credit and monetary restraints, there is no simple formula which will achieve the objective of safe contraction. It is necessary to proceed cautiously by "trial and error" methods, relaxing or tightening controls as such actions may be required. These controls inevitably produce economic dislocations because, as members of the Board have often said, there is no "painless method" of securing the necessary contraction. Moreover, we must not expect too much from these measures. They must be supplemented by other techniques designed to control

Continued on page 70

Continued from page 69

The Business Outlook

dangerous expansion of monetary and credit supplies and to stimulate the supply of goods. But however much credit and other fiscal controls may pinch, they offer more promise in counteracting the inflationary trend than any feasible system of direct price control. Prices are mere symptoms of economic health or illness. We do not cure a malady or mitigate its ravages by attempting to regulate its symptoms. The analogy is far from perfect, but it may serve to indicate the basic nature of the problem.

Outlook First Half of 1951

We cannot judge the business future without knowledge of the past. The preceding analysis has been designed to make clear the unstable nature of the pre-Korea expansion, the new stresses and strains superimposed upon that expansion by subsequent military events, and the measures taken to restore better economic balance. An economy on stilts faces difficulties in carrying added burdens, but grim reality is now compelling us to seek a more solid footing in order to bear the new load.

Uncertainties about the enlarged defense program, the effects of existing and probable future controls, tax burdens and the military outlook indicate the early development of spotty business conditions. It is doubtful that defense expenditures will be in sufficient volume to offset wholly the effects of forced contraction and natural contraction following an abnormal expansion.

It is most probable that there will be some moderate decline in aggregate production as back-logs are worked down and preparations made for greater defense production. We are not now facing the same economic situation we had in 1940 and 1941, and expansion possibilities are more limited. Eventually, we will have much more armament, but probably less "butter" than we have had in the recent past. Our "butter" needs are less urgent than in the prior period.

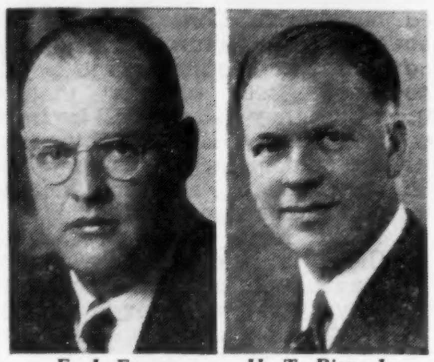
Many recent price increases have been too sharp to be long maintained, but the general price level will hold substantially above the pre-Korea levels.

During the first half of 1951, consumer spending should average moderately higher than in the first half of 1950. Due to the higher prices, the actual physical volume of consumption will be somewhat smaller. Inventories closely geared to short time sales prospects will continue to be prudent policy. Intensified selling effort will be necessary to secure adequate sales volume in most lines of consumer goods.

Since the great business expansion of 1950 came in the second and third quarters, we may expect that many customary measures of business activity will continue to show increases during the next quarter over the same period in 1950, but these percentage gains are likely to grow less favorable in the second quarter.

No appraisal of the economic outlook can be any better than the assumptions on which it is based. Whether random factors will invalidate the assumptions on which this appraisal rests is now one of the unknowns in the economic and political ferment of our times.

Evans, Birr Directors Of Blair Holdings



E. J. Evans H. T. Birr, Jr.

E. J. Evans and H. T. Birr have been elected directors of Blair Holdings Corporation, it was announced by V. D. Dardi, President. Mr. Evans is Chairman of the board and Mr. Birr is President of the First California Company, investment banking firm recently acquired by Blair Holdings Corporation. One of the nation's largest retail securities organizations, First California Company operates 21 offices in the principal cities in California and Nevada.

Nielsen, Gordon & Hall to Be Formed

Effective Jan. 2, Nielsen, Gordon & Hall, members of the New York Stock Exchange, will be formed with offices at 120 Broadway, New York City. Partners will be Gerald B. Nielsen, Irvin H. Gordon, Paul J. Gordon, Frank L. Hall, Richard A. Adrian, the firm's Exchange member, Floyd Augustine, and O. Frederick Isaacson.

Mr. Nielsen is retiring from partnership in Schafer, Miller & Co. on Dec. 1. Mr. Hall in the past conducted his own investment business in New York and more recently has been associated with Sutro Bros. & Co. Mr. Adrian has been active as an individual floor broker, Mr. Augustine was with C. J. Devine & Co. and Mr. Isaacson was in the past with Pflugfelder & Rust.

NASD District No. 13 Elects to Office

No additional candidates having been proposed, the following are declared to have been duly elected to take office as governors and members of the District Committee of District 13 of the National Association of Securities Dealers, Inc., on Jan. 16, 1951:

Board of Governors: Carle Stolle, G. A. Saxton & Co., New York; Paul Devlin, Blyth & Co., Inc., New York.

District Committee: Walter W. Wilson, Morgan Stanley & Co., New York; Nathan Oppenheimer, Vietor, Common, Dann & Co., Buffalo; N. Y.; Charles M. Kearns, Kearns & Williams, New York; Joseph S. Nye, Freeman & Co., New York.

Burnham & Co. to Admit Edersheim as Partner

Burnham & Co., 15 Broad Street, New York City, members of the New York Stock and Curb Exchange, will admit Maurits E. Edersheim to partnership on Jan. 1. Mr. Edersheim is Manager of the firm's foreign department.

Securities Salesman's Corner

By JOHN DUTTON

You can never be positive that a customer thinks you are the top man in his repertoire of favorite security salesmen. Regardless of how close you may feel to your customers and clients, it is nevertheless true that day after day other salesmen are calling upon them. Some of these men are as capable as you. Some of them are as able and as willing to give service, and to keep **your** customers as well-informed as possible. No man's clients are sacred in any business, and especially in the securities business.

To illustrate the point, the following is a true resume of a story I heard the other day. It was told to me by a salesman that I believe really likes his job. I feel sure that the pride which he expressed to me in the way he handled this situation was worth as much to him as the commission which he earned. Here it is:

This salesman had been obtaining an occasional order from these clients but he knew that their financial resources justified a great deal more business than he was receiving. He also had heard them speak of another salesman who occasionally had sold them small lots of various mutual funds. They mentioned fifty and one hundred share orders which they had given to this other man, and always for a different fund. At any rate this salesman decided that for once and for all, he was going to find out just what was the reason why this particular account was not investing along the lines that would be to their own greatest benefit, rather than to parcel out small-sized orders to several securities men.

So he made an appointment for an evening call. He made it his business to forget and forego all business conversation. His hosts were avid canasta players and he joined them. The evening went on, but still he didn't talk securities. Finally about 10:30 his host asked, "What do you think of XYZ fund?" Here was the break that he was anticipating. He stopped, put down his cards and said, "I know quite a bit about it. How about finishing this hand and we can talk it over?" This they proceeded to do, and our salesman, then realizing that one of his competitors had been there before him, went to work. He said, "I think it is a very well-managed fund on the record, and I understand they are making a substantial payment out of capital within the next few days. Of course this payment represents capital gains and is not a true dividend out of earnings. Those who own the shares of this fund have the right to reinvest this special 'capital gain' dividend in more shares, and if you have some of it I would certainly do this; rather than treat this large dividend as income, which it certainly does **not** represent."

This called for some explanation which was done to the satisfaction of his hosts. Thus the curtain was lifted. Possibily it took an evening's comradeship around a friendly game of cards, or a combination of a good atmosphere with "knowing your business," but whatever caused the floodgates of confidence to open, this salesman left that evening with an order for $12,000 worth of mutual fund shares—and it was a fund which he believed that his newborn clients should buy.

As he was leaving his hosts told him, "We just got a telephone call this afternoon from another salesman who sold us the fund which is paying the large dividend out of capital gains. He said he was coming out to see us tomorrow and tell us some good news. You told us the real reason for the large year-end dividend. From now on we will know where our bread is buttered."

It is not necessary to point out the right and the wrong of this little story. Surely, the salesman who didn't tell his customers the real reasons behind their large year-end dividend payments is paying for his lack of candor by continuing along the lines which he has followed for years—he is a fifty-share salesman. He is the opportunist who builds nothing. The other man is now in control of this account.

With Draper, Sears

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Kenneth R. Charlton has become associated with Draper, Sears & Co., 53 State Street, members of the New York and Boston Stock Exchanges.

Opens in Puerto Rico

SAN JUAN, Puerto Rico—William P. O'Brien, formerly with George D. B. Bonbright & Co. of Rochester, N. Y. has opened offices in San Juan to conduct an investment business.

Bache Co. Exhibits at Syracuse University

A live stock exchange ticker and business news wire is being utilized to tell the public the story of a brokerage house in action at the "Financial Week" of Syracuse University's Finance Department (Dec. 11 to 15). The display has been set up by Bache & Co., members of the New York Stock Exchange, as part of their campaign to explain the operations of Wall Street to the general public. It is believed to be the first time that such a display has ever been set up in Syracuse.


Henry Gellermann

Bache's Syracuse office will have representatives at the exhibit to explain the so-called mysteries of the securities industry. Henry Gellermann, public relations director of the firm, will deliver a talk on "Wall Street and the Nation's Economy."

Mr. Gellermann said that recent surveys have indicated an astounding lack of knowledge of the securities industry on the part of the general public. He said that exhibits like this are a welcome addition to the educational campaign being waged by Bache & Co. and the securities industry in general.

Paine, Webber to Admit Manning as Partner

LOS ANGELES, Calif.—Stevens Manning will be admitted to partnership in the New York Stock Exchange firm of Paine, Webber, Jackson & Curtis, on Jan. 1. Mr. Manning is manager of the municipal departments of the firm's Los Angeles office, 626 South Spring Street.

Firm Name to Be Schafer Long Meaney

On Jan. 1 the firm name of Schafer, Miller & Co., 15 Broad Street, New York City, member of the New York Stock Exchange, will be changed to Schafer, Long & Meaney. Benjamin Miller and Gerald B. Nielsen will retire from the firm on Dec. 31.

Roberts to Admit Optiz

Roberts & Co., 488 Madison Avenue, New York City, members of the New York Stock Exchange, will admit Fred W. Opitz to partnership on Jan. 1. Mr. Opitz has been with the firm for some time as office manager.

Railroad Securities

Baltimore & Ohio (Continued)

Two weeks ago we partially covered the Baltimore & Ohio situation, stating that an extension of those comments would appear at a later date. Since that time the stocks have attracted a considerable speculative following. Last week the common was the most active stock on the New York Stock Exchange. On Saturday it sold at the highest levels it has reached since 1946, up a little more than 100% from the 1950 low. If the rearmament program is to gather the momentum generally anticipated, further appreciation for the equity of this predominantly heavy goods road appears likely. In 1946 the stock sold as high as 30¼.

As stated in our earlier column, in the process of the most recent voluntary debt adjustment plan an Additions and Betterment fund was set up to take care of the capital needs of the property. Also, heavy sinking fund requirements for retirement of debt were imposed on the company. Thus, reported earnings may not be considered as wholly available for the stocks. This same thing is true, however, of roads that have not undergone reorganization nor gone through a voluntary readjustment plan. Their full reported earnings may not be considered as available for the stocks, even though there are no mandatory funds. All railroads must make capital expenditures to keep the property in efficient operating condition. Except for equipment there is little inclination on the part of railroad management to sell securities to provide for capital outlays. The money must come, then, out of reported earnings.

It is true that there appears to be little likelihood of more than token dividends on Baltimore & Ohio common stock for some time because of the sinking fund requirements. Fundamentally, however, this is a favorable consideration in any long-term evaluation of the situation. Retirement of debt naturally progressively improves the overall credit standing of the road and this in turn justifies a higher price-earnings ratio for the stock. Also, retirement of debt obviously brings with it a lowering of fixed and contingent charges and a corresponding rise in share earnings. In the case of Baltimore & Ohio it is not necessary to wonder whether or not the management is going to follow the conservative policy of debt retirement. Under the terms of the plan they have no alternative.

There can be little question but that Baltimore & Ohio may look forward to a number of years of exceptionally good traffic. Under such conditions it is reasonable to look for sustained high earning power. Its peak earnings during the war boom reached $16.77 a common share (in 1942) and its status has been improved materially since that time. Probably more than any other railroad in the country Baltimore & Ohio may be characterized as a heavy goods carrier. In particular, it is heavily dependent on the steel industry, both in the transportation of raw materials and the finished product.

It is becoming increasingly obvious that there will probably be a significant decline in many lines of business in the transition period from civilian goods production to armaments. This will almost certainly not be so in the steel industry. It is true that steel consumption may taper off temporarily. Under the conditions, however, it will be only prudent for the various users to purchase as much steel as is available to them and build up inventories for the future. With this background, and considering that early this year Baltimore & Ohio was still suffering from the coal strikes, its traffic comparisons in coming months could well be far more favorable than those of the railroad industry as a whole.

Another favorable and highly important factor in the Baltimore & Ohio picture has been the actual and potential opening up of prolific new traffic sources. In particular, the company has reaped substantial traffic benefits from the opening up and exploitation of coal seams served by its lines in Webster County, West Virginia. This high quality coal has found itself an enthusiastic market and further expansion in output is looked for. The change in the iron ore situation, with steel companies searching constantly for additional foreign sources, has also had a favorable influence on the status of Baltimore & Ohio. Only the surface has been scratched so far, and iron ore imports are slated to assume an increasingly greater role as sources of supply for our domestic mills. Baltimore will be an important point of entry for such import shipments and Baltimore & Ohio has constructed a modern pier to handle the tonnage. On a long-term basis, then, it may safely be assumed that Baltimore & Ohio's traffic picture, as well as its capital structure and physical plant, has been improved materially in the past few years.

Chicago Exch. Firms Elect New Officers

CHICAGO, Ill. — At the annual meeting of the Chicago Association of Stock Exchange Firms and the meeting of the Board of Governors of the Association held Dec. 1, the following officers and Governors were elected:

Chairman: Harold Blumenthal, Swift, Henke & Co.

Vice Chairman: Harry A. Baum, Wayne Hummer & Co.

Treasurer: Fred W. Fairman, Jr., Sills, Fairman & Harris, Inc.

Secretary: Carl E. Ogren, Midwest Stock Exchange.

Governors, to serve three years: Robert H. Gardner, James E. Bennett & Co.; Herbert Levy, Paine, Webber, Jackson & Curtis; Louis J. Stirling, Betts, Borland & Co.; Harry A. Trees, Paul H. Davis & Co.

Nominating Committee, to serve one year: Davis J. Harris, Sills, Fairman & Harris, Inc.; Kellogg, Logsdon, Farwell, Chapman & Co.; Paul E. Murin, David A. Noyes & Co.; Samuel J. Smith, Hulburd, Warren & Chandler; Byron G. Webster, Merrill Lynch, Pierce, Fenner & Beane.

Continued from page 3

There Is No Peaceful Solution To Russia's Aggression!

Burma is in turmoil already, to say nothing of Malaya. So are India, Iran and the Arab countries.

In other words, appeasement does not solve the problem. We might as well abandon Korea altogether, as the noble Allies ditched Poland in World War II. But Chinese aggression will rise again and again, and under increasingly difficult conditions for us. Each conquest provides the Reds with millions of fresh fanatic and fighting manpower and with more resources, and raises their aggressive "morale." Each Red conquest in Asia hurts our (and Japan's) economic potential at its vulnerable raw material end and forces us to extend our lines. Each conquest drives the fear of Stalin into those to be subdued, reducing their resistance. Our job will grow bigger, hotter, and more expensive.

The logic of appeasement demands that it should be complete. The Franco-British jittery argument claims that "concentrating" our efforts on Korea deprives Europe of our protection and invites Russian aggression. This is so stupid that it can be explained only in the light of their irrational, pacifistic propensities. As England's war minister, Shinwell (a left-wing Laborite) puts it: "No one desires peace with Russia at any price, but we are resolved to avoid war at whatever cost."

Messrs. Baldwin - Chamberlain-Daladier & Company could not have said it with a more perfect lack of logic. They were "incapable of any drastic or clear-cut action," quoting Churchill—who now has turned appeaser himself—in "The Gathering Storm" (Vol. I of **The Second World War**), adding that "the bold path is the path of safety."

The truth of the matter is that "Europe is untenable if Asia is lost. And Asia is lost if we have to put up a fight in the South under far greater disadvantages than those in the North at present.

The Europeans think in the narrow terms of their vested interests. Korea is of little significance commercially or investment-wise, forgetting what is bound to follow; Chinese millions massed against Hong Kong, Macao, Indo-China, etc.

Europe is untenable without the resources of Asia—Russia becomes virtually invulnerable in possession of Asia. The tempo of our and Europe's armaments, even if they are greatly accelerated, must lag behind the rapidly growing power of a Soviet empire that expands by leaps and bounds. As the examples of China and North Korea have shown, it can absorb Asia's millions, and fanaticize them faster than we can build armies to match them.

II.

Europe's fate will be determined in Asia, not in Europe. That brings us to the second alternative: an ultimatum to China, to be followed by all-out air attack, covering the enemy's rear and communications by an umbrella of A-bombs, destroying his airports, supply centers and cities. Besides the explosion's effects, entire areas can be "poisoned" for weeks by radio-active emanations.

But is such wholesale slaughter justifiable—as long as the issue at stake is a "piece of real estate" and not our national existence? In reality, scores of millions of friendly people are at stake, plus our own long-run security, leaving aside national honor and prestige. Besides, ethics is a matter of principles, not of quantities. Is it unethical to wage war against an aggressor? If so, we have to be conscientious objectors and lay down the weapons. Otherwise all means are permissible which are necessary.

But is it expedient to use the bomb? The answer is that it may end the war at once. At any rate, we would do much better with it than without it. It is, of course, an auxiliary weapon. We still may have to fight, but under immensely improved odds. We may have to blockade the China coast and to mobilize our natural ally: Chiang Kai-shek. No one can tell with assurance whether the Chinese would give in; or how long it would take. But the imperialistic expansion of Red China could and should be diverted into a civil war within China, at virtually no cost in American lives.

What About Russia?

The crucial question is, however, Russia. Will she rush to the rescue of the hard pressed Red friends? That is what looms so large on the appeasing minds—just as Hitler's bluff did on the minds of their predecessors. Stalin operates with the same propaganda technique as Hitler did: frightening Europe out of its wits, out of all proportion to the actual power behind the bluff. (See the excellent article of General F. L. Howley in the current "Nation's Business.")

But why should the Kremlin start World War III tomorrow if it did not do so yesterday? Would it have any better chances to overrun Europe because a few American divisions are stymied in the Far East — withdrawable on short notice? Would Russia be in any better position against the Atom after it has been unleashed on China than before—after China's war potential has been knocked out? If it is as easy and costless to overrun Europe as the appeasers pretend: just what has Moscow been waiting for?

To stay out of open war, but to do all the damage by roundabout process which she can abandon if and when her bluff is called, to use satellites at no cost to herself, then to play the virtuous intermediary—is the essence of Russia's cold war.

III.

To sum up: there is no peaceful, "diplomatic" solution to the problem. The chance to find such a solution was forfeited when we sold Poland and China down the Volga; when we eliminated the war potential of Germany and Japan, the only natural dams in the way of the Bolshevist tide; when, on top of all that, we financed and promoted Europe's total disarmament. It was our policy to boost little colored George Washingtons, every one of whom turns out to be a colonial Fellow Traveler, if not an outright Bolshevist.

Now we have to face the music. By the time these lines reach the reader, the decision may have fallen. We may have suffered a shameful Dunkerque — at Chinese hands. If so, it will be the greatest defeat (not just of this nation, but of Christianity) since Byzantium fell to the Turks. It will have demoralizing effects throughout the Western World. The UN has already been turned into an instrument of providing moral coverage for Bolshevist aggression—which implies that we are the aggressors! The British—who depend on us for livelihood and self-defense—emerge as the masters of our foreign affairs, Attlee returning victoriously with fresh billions which give his decrepit regime a fresh lease on political life. This country will be burdened with all-out armaments and all-round regimentation.

Marching into Korea with fanfares and refusing to live up to the commitment; going isolationist on China's northern end and hoping that she will stay put in the South; such are the naiveties which go by the name of "realism." But Mao can be relied upon to exploit them to the greatest embarrassment of the ubiquitous compromisers.

Golf and Tennis Tournament Winners at the Investment Bankers Assn. Convention

GOLF

Investment Bankers Association Championship for Investment Bankers Association Trophy played at La Gorce, Nov. 29, 1950.

1st: Charles C. Glavin, First Boston Corp., New York, 73.
2nd: W. Neal Fulkerson, Jr., Bankers Trust Co., New York, 74.
3rd: Harry L. Walters, Girard Trust Company, Philadelphia, 77.

Ladies 18-Hole Championship—Scratch—Tuesday, Nov. 28
1st: Mrs. C. Prevost Boyce (Stein Bros. & Boyce), Baltimore, 92.
2nd: Mrs. Macrae Sykes (Shields & Company, New York), 106.

Low Net
1st: Mrs. William M. Rex (Clark, Dodge & Co.), New York, 74.
2nd: Mrs. Harry I. Prankard (Lord, Abbett & Co.), New York, 75 (Draw).

Alden H. Little Trophy—Monday, Nov. 27
1st: William O. Alden, Jr., O'Neal-Alden & Co., Louisville, Ky., 70.
2nd: Charles McK. Lynch, Jr., Moore, Leonard & Lynch, Pittsburgh, 71.

Ladies Kickers' Handicap—Monday, Nov. 27
1st: Mrs. Sheldon R. Green (Chase National Bank), New York, 76 (Draw).
2nd: Mrs. Leonard J. Paidar (Goodbody & Co.), Chicago, 76.

Robert E. Christie, Jr., Memorial Tournament (Eligible only to 1934 Convention)—Tuesday and Wednesday, Nov. 28, 29
1st: F. D. Farrell, City National Bank & Trust Company, Kansas City, 74.
2nd: Gerald P. Peters, Peters, Writer & Christensen, Inc., Denver, 75 (Draw).

Men's 18-Hole Handicap—Tuesday, Nov. 28
1st: Marion H. Cardwell, J. J. B. Hilliard & Son, Louisville, 72.
2nd: J. Dalton Couig, Hirsch & Co., New York, 73 (Draw).

Mixed Foursomes—Thursday, Nov. 30:
1st: Mrs. C. Prevost Boyce (Stein Bros. & Boyce), Baltimore, and V. Theodore Low, Bear, Stearns & Co., New York, 72.
2nd: Mr. & Mrs. Clarence W. Bartow, Drexel & Co., New York, 73 (Draw).

Kickers' Handicap—Thursday, Nov. 30
1st: David M. Wood, King & Dawson, New York, 78 (Draw).
2nd: Robert G. Rowe, Stroud & Company, Inc., Philadelphia, 78 (Draw).

* * *

TENNIS

Entry of 15 Teams in Men's Doubles
Entry of 12 Teams in Mixed Doubles

Men's Doubles
1st: Malon & Richard Courts, Courts & Co., Atlanta
2nd: Louis Walker, G. H. Walker & Co., Hartford, Conn., and Robert A. Magowan, Merrill Lynch, Pierce, Fenner & Beane, New York, 4-6—6-2—6-2.

Mixed Doubles
1st: Mr. & Mrs. Joseph R. Neuhaus, Underwood, Newhaus & Co., Houston, Texas.
2nd: Mr. & Mrs. Graham Jones, Cooley & Co., Hartford, Conn., 6-3—6-2.

1951 IBA Convention For Hollywood Beach

The 1951 Investment Bankers Association Convention will again be held at the Hollywood Beach Hotel, Hollywood, Florida, Nov. 25-30, 1951, inclusive.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

Transfer of the Exchange membership of Samuel H. Watts to Robert B. Menschel will be considered by the Exchange on Dec. 21.

Transfer of the Exchange membership of the late Frank J. Foley to Ralph Fordon will be considered by the Exchange on Dec. 31.

Transfer of the Exchange membership of Beverly M. Eyre to Arthur P. Briggs will be considered Dec. 21.

Transfer of the Exchange membership of the late Harry H. Moore to Edward Patterson will be considered by the Exchange on Dec. 21.

Transfer of the Exchange membership of Benedict N. Quinn to Nathan C. Bernstein will be considered by the Exchange on Dec. 31.

Beverly M. Eyre will retire from partnership in Delafield & Delafield on Dec. 31.

William D. Winchell will retire as a general partner in Goodbody & Co. on December 31, but will remain as a limited partner.

Welles Murphey, member of the Exchange, will retire from partnership in Hay, Fales & Co. on Dec. 31.

A. Pam Blumenthal will withdraw from partnership in A. W. Morris & Co. Dec. 31.

Alvin W. Seligman will retire as a partner in Seligman, Lubetkin & Co on Dec. 31.

J. Bowling Bruns

J. Bowling Bruns, Bruns, Nordeman & Co., New York City, died of a heart attack on Dec. 9.

Harry M. Payne

Harry M. Payne, partner in Webster, Marsh & Co., Chicago, died Dec. 7 at the age of 52.

J. Hegeman Foster

J. Hegeman Foster, special partner in Foster & Adams, New York City, died at his home at the age of 82 after a short illness.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

With the refunding out of the way, the government market now seems to be concerned with the confused international situation and rapidly expanding bank loans. The fear of increased reserve requirements came to the forefront again and this has created an attitude of caution among many buyers of Treasury obligations. Volume has declined somewhat but this is not unusual, because with the completion of the refunding there is a tendency to slow down and see what develops in the market, before making additional commitments in either the new or outstanding obligations.

The watchword at the moment seems to be stay on the liquid side of the market and that spells out shorts. This accounts for the sizable demand for Treasury bills and certificates. This buying has been widespread and is being done by financial as well as non-financial institutions.

The longer end of the market has had its ups and down within a slightly expanded range without accomplishing very much. Liquidation, which was not too heavy has been well taken, both in the taps and the eligibles.

Emphasis on Short Maturities

The closing of the books for the December-January refunding brought with it the usual let-up which generally follows such an operation. Buyers and sellers, it seems, take to the sidelines temporarily to see what will develop in the market, with the pressure of the exchanges out of the way. Federal, it is indicated, will have a commanding position in the new issue, and this will no doubt enable the Central Banks to dominate the intermediate-term obligations, as they have the various other maturities. The success of the refunding would under more normal conditions mean a more buoyant tone to the market as a whole, but these are not normal times. The international situation hangs heavy over the Treasury market as it does over all other markets. There is no question but what rapidly changing conditions in the Far East have been an important force influencing the purchases and sales in the government market of financial and non-financial institutions. It is reported that many of these institutions have gone "short" because of the critical turn of events in Korea, and the prospects that there may be a spreading of the armed conflict. The shortest and most liquid Treasuries are being bought until there is greater certainty in the international picture.

Then again there is another factor which is keeping the commercial banks particularly and other operators to a certain extent, in the shorts, or on the sidelines, and that is the trend of loans. With this force must be combined the fear of increased reserve requirements because they go hand in glove. The big question is how long will be authorities allow loans to go bounding ahead before something will be done to call a halt? The answer is not easy and it seems as though when one is in doubt the solution is "go short" or "stay short." This appears to explain, along with some of the other uncertainties, the heavy demand which has been in the market for Treasury bills. Likewise there has been good buying in certificates, especially among the larger commercial banks and corporations that were holders of the recently retired obligations.

New 1¾s Favorably Received

Despite the cautious attitude and substantial buying of the nearest-term maturities by many operators in the government market, there has been a very favorable reception for the new 1¾s. This is exclusive of the notes that were taken by the Central Banks. Commercial banks, especially those with savings deposits, have been large buyers of the 1¾s. This kind of buying is of the strong variety and most likely means these securities will not be coming into the market in the near future. Also, not a few other owners of the refunded issues decided at the last minute to turn in for the 1¾s because it was felt the 1955s would not only hold the par level, but in time would quite likely go to a premium. It is the opinion of many followers of the money markets that the 1955 notes will be more attractive as the floating supply, which is not indicated to be exessive, is digested. There is evidence that switching from outstanding maturities has already taken a fairly sizable amount of 1¾s out of the market already.

Long Bonds Bought on Weakness

Despite the many uncertainties that overhang the money market, there is still interest enough among the out-of-town deposit banks to take up the 1956s and the longest bank issue when these bonds are on the decline. Scale buying orders are becoming more important in the intermediate-term eligibles and the September, 1967s. It is reported that not too many of these securities have been picked up on price weakness because the declines have been so far mainly the results of a quoting down, with very light volume.

The partially-exempts continue to attract buyers principally from commercial banks in the larger money centers. The 2⅞s seem to have taken over a good part of the spotlight and the availability of this bond has not been an unfavorable factor.

Although there has been a heavy tone to the nearest eligible tap bonds, due to insurance company selling, the buying has been very good and there is no doubt these securities are moving into strong hands.

Thomson & McKinnon To Admit Partners

Thomson & McKinnon, 11 Wall Street, New York City, members of the New York Stock Exchange, will admit David Krell and John H. Marshall to partnership on Jan. 1. Mr. Marshall will make his headquarters in the firm's Toronto office.

Robert Whittaker to Be F. S. Moseley Partner

CHICAGO, Ill.—Robert B. Whittaker, resident manager of the Chicago office of F. S. Moseley & Co., 135 South La Salle Street, members of the New York Stock Exchange, will be admitted to partnership in the firm Jan. 1.

IBA PAST PRESIDENTS

1942 - 43	1941 - 42	1939 - 40 - 41
		
Jay N. Whipple	John S. Fleek	Emmett F. Connely

Public Utility Securities

By OWEN ELY

Southwestern Public Service Company

Southwestern Public Service Company in the fiscal year ended Aug. 31, 1950 earned $1.34 a share on the 3,036,487 shares now outstanding (following sale of additional stock on Feb. 1 and a 2-for-1 split in August). The current dividend rate is $1.12 which, at the recent over-counter price around 14, affords a yield of 8%.

The company is one of the fabulous Texas utilities, with some operations in neighboring states. Since Aug. 31, 1945, the company has raised its dividend rate eight times, and the postwar growth record is indicated by the following increases:

Electric Customers	70%
Plant Account	150
Revenues	96
Balance for Common	239
*Common Share Earnings	131
*Dividend Rate	192

*Adjusted to reflect exchange of eight shares for five in 1947 and exchange of two shares for one Aug. 8, 1950.

The balance for common stock in the recent fiscal year increased only 10% (slightly less than gross revenues). This was somewhat lower than anticipated, due probably to the vagaries of the weather. First there was a very dry spell, followed by a very wet spell, and the company's irrigation "load" (sales of electricity to operate irrigation pumps) was smaller than anticipated for the second consecutive year, which may have reduced share earnings by five to ten cents.

Regarding the outlook for the next fiscal year, much will depend upon the Excess Profits Tax bill finally enacted by Congress. On the basis of the present House bill, however, the company estimates that it can avoid paying any EPT in either 1950 or 1951. The company can use the average earnings credit base, with the new provision for a special credit of 12% on equity capital added in the period since June 30, 1948. It is also possible that benefits may be obtainable from accelerated (five-year) amortization of new plants.

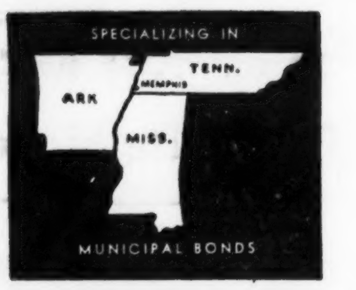
However, the increase in the regular income tax from 38% in 1949 to 45% in 1951 will naturally retard the gain in common stock earnings and there will be further dilution early in 1951 from the pending sale of additional common stock (as in the past four years). The company is therefore, asking for a general 5% rate increase to offset increased Federal income taxes. While this is the first broad rate increase the company has requested, the management is confident that local authorities will acquiesce (there is no state regulation in Texas, where the greater part of operations are conducted). The company's customers are more interested in obtaining prompt and efficient service to meet constantly increasing demands, than in the exact level of rates, it is believed. Should this increase be obtained, earnings for the fiscal year ended Aug. 31, 1951 are estimated at about $1.39 on present shares, which would result in a dividend payout of 81% to continue the present rate.

The company on June 1, this year, stepped up its depreciation formula from 15% to 16% of revenues—thus 16% of the rate increase the depreciation reserve in addition to the 45% taken by income tax.

The company uses natural gas as fuel to produce substantially all its electric output. Purchase contracts have nearly nine years to run, on the average; cost increases will largely be absorbed by fuel clauses in rate schedules as well as by the increased efficiency of new generating units.

The company spent $19.3 million for construction last year compared with $15.2 million in the preceding year. Of the former amount about $17.5 million was raised through sale of securities ($10 million bonds, $2.5 million debentures, and $5 million common stock). In the current fiscal year construction may amount to $20 million and the company plans to sell $12 million 30-year bonds, $2.5 million preferred stock and $3 million common stock. This financing will probably be done in the early part of 1951. Dillon Read & Company act as the company's bankers.

Chairman Nichols and Vice-President Stanley recently addressed a large group of utility analysts at a luncheon at the Downtown Athletic Club, and copies of a 35-page statistical brochure (together with the new annual report) were distributed.



Continued from page 6

To Defend America, We Must Avoid Inflation

only one-third as many men in the armed forces, and the cost of war and other government purposes only one-quarter instead of one-half of our national productivity, we ought to be able to raise enough in taxes to pay as we go and avoid deficit financing.

Now, if that is anywhere near the non-political realities of what we Americans have in store for us over the next two years and if we are in for 10 years of preparation for war on some scale, then we can't afford to repeat the mistakes of the past. We must see the problem clearly and think straight. We must demand that every American bear his share of the burden. We must prevent the adoption of all-out direct controls. We must demand of Congress and the President a program of action that will defend America and the American dollar.

Of what elements should such a plan consist?

(1) We should demand that our Foreign Policy be clearly stated.

(2) We should demand that our Commander-in-Chief and his Chiefs of Staff, without further delay, determine where and when and how we can best oppose Russian imperialist aggression.

(3) We must determine quickly if Western Europe is really going to do her full part to oppose aggression. If she is *not*, then we had better decide now where our line of defense is going to be.

(4) We must decide soon if our defense line in the Far East is Alaska-Japan-Formosa, and from there where, before it gets back to the Australia-Philippines-Hawaii line.

(5) Once we have a clear cut Foreign Policy, we can then expect a Military Plan from our Chiefs of Staff.

(6) We must get our Federal debt in proper shape so we could finance all-out World War II, if and when it comes.

(7) We must make up our minds whether we are going to permit Stalin to toss a series of Koreas at us or whether we are going to use the atomic bomb to destroy the war-making potential of Russia.

(8) With a Military Plan we can quickly get a Table of Requirements for Partial Mobilization of men, materials, machines, and money.

Now this is just the opposite of what Washington has been doing. Up until the elections in November the State Department policy was typified by its "get out—get back in" Korea policy and the White House attitude, which spread to Congress and even to the Pentagon was "How much can we spend on national defense and still have enough money left over to do all the other things we want to do, such as greater social security, higher wages, socialized medicine, more public housing, more subsidies to farmers, and a bigger patronage payroll?"

What we need today is a complete reversal. Defense needs must come first. Less important things must be tossed overboard to save the ship.

So, if we are going to need 4 million men in service and a $70 billion Federal budget for two years or more, let's start trimming ship to defend America and preserve our American dollar from further devaluation.

Here is what should be done in my opinion:

(1) Demand that our Government and our Congress cut at least $5 billion out of the non-military Federal budget.

(2) Demand immediate adoption of 2-year universal military service to provide 1½ million of the 4 million men required.

(3) Demand that all uneconomic subsidies to special groups be discontinued, including farm and housing subsidies.

We should, to the maximum practical extent, convert ECA and the Marshall Plan into powerful instruments to further rearmament of the Western World. We should make ECA's organization and funds a part of the Military Assistance Program of Western Europe. We should demand that our allies abroad make the most effective use of their manpower. They should manufacture locally all the war material they can, relying on us to supply them with such machines, materials, and money as they lack.

(5) Lower our tariffs and clear a path through import regulations so that our foreign allies can pay us with goods for as much of the machines and materials as they can, rather than letting them sit back and ask us to make these things and give them away for nothing.

(6) If there is a temporary deficit, insist that the money be raised by sale of long-term non-negotiable bonds to the public, to savings banks and to insurance companies and not add to inflation by the sale of Government securities to the Commercial Banks.

(7) As a necessary preparation for a possible World War III, insist that available funds in the hands of individual and institutional investors be tapped to the fullest extent so that as much as possible of the $65 billion of short-term notes and certificates in our Federal Debt be refunded into long-term bonds. These should be made salable to the public even if this involves complete or partial tax exemption of interest when received, or higher interest rates.

(8) Also, in order to be able to finance a possible World War III, we should plan for a cash surplus in our Federal Fiscal and Debt management in order to retire a portion of our Federal Debt every year from now on except in depressions.

(9) Based on a $300 billion gross national product demand that Congress levy taxes to bring the income of the Federal Government to $75 billion. That should be enough to maintain a balanced cash budget and provide $5 billion to retire debt if we cut unnecessary expenses.

(10) We should demand a pattern of taxation that would help win the partial war rather than make it more difficult: moderate excise taxes on everything but bare necessities; heavy excise taxes to retard the sale of items that interfere with needed war production; a defense super-tax added to the peacetime income taxes of individuals and corporations. I doubt if it is possible to write a sound excess profits tax for a partial war.

(11) In order to provide adequate manpower, encourage overtime work without payment of premium pay. Premium pay was instituted in NRA days of depression in order to discourage employers from requiring overtime and to spread work among the unemployed. But now we shall need overtime to win the partial war. There are almost no unemployed. And premium pay in the face of a 10 to 15% cut in consumer goods is definitely inflationary.

(12) In this partial war we should definitely oppose wage or price controls or rationing for consumers. On the other hand we will have to have some limited direct and indirect controls such as allocations, priorities, and stock-piling of strategic materials and some direction of civilian workers into war work.

(13) The indirect control of housing and consumer credit and the anti-inflationary policy of general credit control adopted last August by the Federal Reserve as a holding operation should be continued until the above program is adopted. Following that, the Federal Reserve could adapt its program to coordinate with and help make the other measures more effective.

(14) The tax burden under such a plan will be so heavy that the country cannot afford a continuation of the wage increase, price increase, cost-of-living increase spiral. Therefore, the Govern-

ment must demand, as a patriotic contribution of labor leaders and of business leaders, that it stop. Congress has said if we are to have legal price control we must have legal wage control. Organized labor says if we have restriction of wage increases we must have restriction of profits by an excess profits tax. Business does not want either wage or price control nor consumer rationing by law because it simply does not work. That leaves only the possibility of the Government making an agreement with the leaders of organized labor so there will be no wage increases except on a cost of living basis. And then have Government put it up to industry and business to hold down prices that affect the cost and living index. The removal of subsidies and controls over farm products should take place at the same time. No one group can be protected. We are all in great danger together. There must be a reasonable equality of sacrifice.

Summary

Let me summarize the essence of the problem in one minute:

The men and women who will produce armaments and the four million men in the Armed Services will receive very roughly somewhere around $50 billion for their services. But they will produce no goods and services that can be sold in the market. You therefore have $50 billion chasing no corresponding production of marketable goods. Inevitably, their buying power will chase the goods and services that the remaining civilian workers produce.

In total, if we have a gross national product of $300 billion and $50 billion of this is military goods and services, you have a situation where $300 billion of purchasing power chases $250 billion of marketable goods and services. Inevitably, therefore, prices will rise unless we also reduce civilian purchasing power by $50 billion. That is why I advocate $50 billion of taxes to pay as we go for war, in addition to the amount needed to cover the costs of civil government. That means new added taxes of almost $25 billion.

I have assumed that we shall spend $50 billion for defense activities and offset it by an equal amount of taxes. That avoids the deficit financing we had in World War II. But if wages and prices keep on rising, the cost of the defense program will go to $55 billion or $60 billion or more. We must then rapidly increase taxes proportionately or we will inevitably have a resumption of deficit financing. It is an utter fallacy to imagine that a budget once balanced will stay balanced if wages and prices go up.

We must quit raising wages and prices. Each across-the-board boost raises the cost of the defense program. Taxes must be boosted proportionately. Also, each such boost in wages sooner or later raises the cost of living. If labor continues to demand further wage boosts to avoid paying its share, that will mean the wage-price spiral that can produce continuous inflation. Manufacturers, labor, farmers, all of us, must, through voluntary action, apply the utmost restraint to ourselves. Otherwise, we get deficit-financing, through the banks, the root of inflation. Then we would face a wage-price freeze administered by a government bureaucracy in a fashion none of us would like.

We should retire or fund into long periods as much as possible of our $65 billion of short-term debt so as to reduce money volume to curb inflation, and to be ready to finance World War III if it comes.

The plan I have outlined is definitely anti-inflationary while at the same time permitting a high level of production and an adequate scale of living. It should assure the American people that they can buy in confidence whatever War Bonds may be necessary in order to win the partial war. It is a plan that makes use of a few direct and many indirect anti-inflationary controls rather than resorting in this partial war to the freezing of wages and prices, and consumer rationing.

Under such a plan, if continued over a period of years, we have a very good chance to preserve our free enterprise system which is our greatest strength.

No one knows better than I do that the prescription I have outlined will be neither popular nor easy of accomplishment. But if we are to defend America we must defend the American Dollar. Today it is the symbol of success and the emblem of America throughout the world. The dollar must command complete confidence both here and abroad.

All of us and our country are in greater danger today than ever before. It is time some one told the American people the truth without fear or favor and without selfish motive whether it be politics or profit.

This is no time to point a finger at someone else or to sit back and expect George to do it. Every patriotic citizen must himself try to understand this problem and must demand that we solve it so as to preserve this country of ours for the great destiny that it surely has to perform as the leader toward a new world of freedom and peace.

In these trying times we might all look for guidance to one of our greatest leaders who in a previous time of great national peril fought to preserve our Republic.

Ninety-three years ago Abraham Lincoln looked clearly ahead—into our very times—when he proclaimed this warning:

"At what point," he said, "shall we expect the approach of danger? By what means shall we fortify against it? Shall we expect some trans-Atlantic military giant to step the ocean and crush us at a blow? Never! All the armies of Europe, Asia and Africa combined with all the treasure of the earth in their military chest, with a Bonaparte for a commander, could not by force take a drink from the Ohio or make a track in the Blue Ridge in a trial of a thousand years.

"At what point, then, is the approach of danger to be expected? I answer," said Abraham Lincoln, "if it ever reaches us it must spring up amongst us; it cannot come from abroad. If destruction be our lot we must ourselves be its author and finisher. As a nation of free men we must live through all time or die by suicide."

IBA PAST PRESIDENTS

1938-39

Jean C. Witter

1937-38

F. E. Frothingham

1936-37

Edward B. Hall

White, Weld Admits

Roland M. Hauck will become a partner in White, Weld & Co., 40 Wall Street, New York City, members of the New York Stock Exchange, on Jan. 1.

Barry Named to Executive Committee

Eugene P. Barry, a partner of Shields & Co. and a director of Interstate Motor Freight System, has been named a member of the executive committee of the latter firm, which operates approximately 17,800 miles of certified trucking routes in 16 states and the District of Columbia.

Eugene P. Barry

Acquire NYSE Membership

Raymond A. McCann has been admitted to membership in the New York Stock Exchange. Mr. McMann, who is also a member of the New York Curb Exchange, will maintain his offices at Laird & Company, 61 Broadway, New York City.

With A. H. Bennett Co.

(Special to The Financial Chronicle)

KANSAS CITY, Mo.—Glenn R. Schultz has been added to the staff of A. H. Bennett and Company, 1004 Baltimore Avenue.

With Brown Bros. Harriman & Co.

(Special to The Financial Chronicle)

BOSTON, Mass. — Robert A. Booth is now with Brown Brothers Harriman & Co., 10 Post Office Square.

Arthur Wiesenberger To Admit E. B. Gould

Edson B. Gould, Jr., will become a partner in Arthur Wiesenberger & Co., 61 Broadway, New York City, members of the New York Stock Exchange, on Jan. 1.

Continued from page 13

Implications of Frear Bill

may obtain a business advantage over them. Instead, the vast fund of public goodwill which attends full disclosure by all large publicly-held corporations will rebound to their benefit. The investment industry will be able to obtain information about little-known enterprises necessary to interest the public in providing capital for them. You, the dealers in securities, should assume a vastly expanded function in our economy in the analysis of these enterprises for your customers and in providing a market for them.

Popularizing Investment Stocks

Studies made by the Board of Governors of the Federal Reserve System last year indicated that less than one family in ten owned any corporate stock. Even in the highest income group studied, those making over $7,500 only about one-third of the families owned any corporate stock. The reason given for this reluctance to invest in corporate securities in most instances was largely lack of information. Your organization early recognized one phase of this problem of educating the public. I understand that long before the days of the National Association of Securities Dealers you furnished financial newspapers with daily quotations upon over-the-counter securities. Another phase is the publicity which should be given the financial statements of corporations in which there is a public interest. Still another phase is the increase of confidence which comes when the investor knows a proxy statement is fairly presenting the issues. The proposed legislation is designed to bring about this increased publicity and investor confidence, and I believe the equity markets will respond in a way which will benefit us all.

I have long believed in the beneficial effects upon the economy from the injection of risk capital into business ventures, and I would like to see removed such factors as have hampered it. It seems to me that managements fall short when they do not voluntarily comply with all the standards the bill proposes to establish. Without attempting to take away their management functions, the bill seeks to require sufficient disclosures for the adequate protection of the investors. In the process of compliance with the legislation the benefits I have outlined should follow. Conclusive proof exists in the experience which we have had under the Securities Exchange Act.

From another point of view, the bill promises relief for many of you from the annoying situation in which you find yourself when a customer asks for information about a company inadequately described, or not listed in the financial manuals. If the company is a large one, and if there is substantial investor interest, it would, under the bill, file reports with the Commission, which the manuals would undoubtedly pick up. Your field of operations would be larger and information would be more complete. The proposed bill should not effect your continued cooperation with management, but your scope of opportunities should be vastly expanded. Every study I have ever seen proves that the only worthwhile, lasting benefits to your industry and to American business are achieved by full and fair analysis of investment opportunities. The type of person you must rely upon to provide capital for business is the kind who will respond to fairness in corporate management by taking a more active part in his corporation's affairs.

Gentlemen, this bill is not perfect. I take it for granted that there are flaws in it which must be discovered and repaired. Since the hearings many persons representing corporations which, for one reason or another might suffer hardship under the bill as it stands, have suggested amendments. Some of these, I believe, are entitled to some relief. I am, at present, studying means which may be employed to afford them immunity from any hardship. The Securities and Exchange Commission has also held numerous conferences with representatives of industry seeking similar action. I understand they are anxious to cooperate in the presentation of any meritorious suggestion for amendment. In fact, they have already recommended five such amendments.

To Study Bill's Effects

In conclusion I should like to re-emphasize what I have said twice on the floor of the Senate. Until this bill is enacted I intend to continue a study of its probable effects. If, in this study, I can have your assistance or the assistance of any other interested persons, I shall welcome it. I am sure also that the Securities and Exchange Commission wishes to explore any suggestions for amendment or modification of the bill in its present form and I urge that you communicate with them or with me if you have any ideas upon these matters.

The widespread approval voiced by the industry during the hearings on the bill was very gratifying. As I said then, it is a notable occasion when the President of the United States, the investment community, the governmental regulatory authority, and the investing public stand side by side in their support of pending legislation. It is a tribute to your high public spirit in this matter and your attiude of cooperation.

I intend again to introduce the bill in the 82nd Congress. While I venture no predictions, I believe the nonpartisan support this measure has had and deserves augurs well for its successful passage.

Josephthal to Admit

Josephthal & Co., 120 Broadway, New York City, members of the New York Stock and Curb Exchanges, will admit W. Truslow Hyde, Jr., to partnership Jan. 1.

Mallory, Adee to Admit

Mallory, Adee & Co., 120 Broadway, New York City, members of the New York Stock Exchange, will on Jan. 1 admit Stanley A. Aldrich, Melvin A. Conant and August F. Muller to partnership.

With DeHaven, Townsend

PHILADELPHIA, Pa. — DeHaven & Townsend, Crouter & Bodine, 1500 Chestnut Street, members of the New York and Philadelphia-Baltimore Stock Exchanges and New York Curb Exchange, announces that Thomas D. Langston and John Hunter White have become associated with them.

Continued from first page

As We See It

not to see where the burden upon the people at large can be reduced, but to determine whether higher prices and all the rest should be made the reason or excuse for enlarging those burdens.

Drift of Thought

But an even more basic aspect of the drift of official thought during the past two or three weeks has been in evidence. The President was on strong ground when he insisted that the Korean venture and the rest should be financed on a "pay-as-we-go" basis. He showed an unfortunate lack of grasp of the real situation when it came to the type of taxation for the purpose, and no appreciation of the extent of the need for eliminating needless and wasteful outlays by the Federal Government, but he was right in saying that we must do much better than during World War II in our financial conduct.

Much water has gone over the dam since that time, however, and less and less is being heard about paying for this thing as we go. Plans for rearmament and envisaged expenditures for rearming ourselves and the non-Communist world grow daily, and have been growing for so long now that they are reaching "all-out" proportions. As all this has been taking place, less and less is heard about how the program is to be financed. It would appear that the Administration has definitely given up hope of any "pay-as-we-go" mode of procedure. As was to be expected, and as is almost invariably the case in such a situation, the scene at Washington is one of confusion worse confounded. Plans grow like mushrooms, appropriations fall victim to elephantiasis, but war production and, accordingly, actual expenditures lag far behind, but if one is to accept the assurances which emanate from the Capitol, we shall presently be faced by the need to raise a great deal more money than we are now collecting in Federal taxes.

It is conceivable, indeed it is probable, should we approach an "all-out" basis of operations on the military and rearmament front, that we should find a balanced budget difficult if not impossible to attain without sacrifice of the military effort. So far as we are aware such a feat has rarely if ever been accomplished in any free economy. It could be, therefore, that a period of deficit financing will prove unavoidable. Such a consummation

would be regrettable, but not disastrous if the financial affairs of the country are managed with wisdom and foresight. What disturbs us seriously at this moment is the obvious fact that the powers that be appear to be quite ready to accept World War II ideas on this subject, and to be laying their plans accordingly.

To put this in a more definite and concrete way, it would seem that the authorities, even the Reserve authorities who of late have shown more independence of mind and action than in years past, accept now as heretofore the notion of financing deficits by sale of government obligations in a market where rates are kept at artificially low levels by use of commercial bank and Federal Reserve funds. It may also be true—it would certainly be part and parcel of the philosophy which demands artificially low bond yields—that the Treasury is still victim of the notion that individuals should be persuaded to supply the government funds in the thought that they may and should at some time in the not too distant future hand the obligations they now buy back to the Treasury and take the proceeds into the consumer goods markets.

Thoroughly Unsound

All such ideas are, of course, anathema to sound financial policy. Indeed it may be said that at present an attempt to proceed in any such way is nothing short of an outrageous imposition upon the public at large and in particular upon the individual who is urged to buy, perhaps bludgeoned into buying, savings bonds or their equivalent. It may be doubted whether there is any general realization as to what has occurred in this situation during the past decade or two, or for that matter since the outbreak of World War II. In 1929 and throughout the early 'Thirties government bonds were available to the public to yield around 3½%. They were partially tax exempt—less important to the small investor then than now. The income therefrom was available to the investor currently, not merely at the end of a term of a considerable number of years as is now the case. True, there was no redemption privilege as with savings bonds, but the relatively slight market risk with the Federal Reserve hovering over the market, may be seen easily enough by reference to the record. Today somewhat less than 3% may be obtained—if one waits ten years for any returns in cash at all. Much less than that is available if the bonds are held for only a few years. What the real worth of such returns in dollars—assuming that these dollars are obtained today—in comparison with those received by such or similar investments a decade and a half or two decades ago may be easily determined by reference to what are now called consumer price indexes. A dollar received today will buy less than three-quarters of what it would in 1929; substantially less than 60% of what it would in 1932; only about 60% of what it would in 1939.

We may be certain that anything approaching an "all-out" rearmament effort would cut further slices from the purchasing power of the dollar. The Treasury is asking a good deal of the public when it would sell its obligations at current yields. What is even worse is the fact that the current system inevitably converts Treasury obligations into something closely resembling money.

Continued from page 8

Business Prospects and Pitfalls of 1951

those last year and the year before:

(1) Government spending.
(2) Consumer spending.
(3) Business spending.

Let's consider them in that order.

Government Spending

Until the Chinese Communists entered Korea a month ago, it could of been reasoned: This may be a localized outbreak. Once it is ended, it will be difficult to sustain the war spirit of this country, which is fundamentally and demonstrably a peaceful nation. If peace, even an uneasy peace, should prevail early next year, it would be difficult for Congress to appropriate the funds necessary for a first-class defense program.

All that changed overnight when the Chinese openly entered the Korean conflict. That action convinced the American people of real and lasting danger. It then became reasonable to expect defense spending to rise from its recent annual rate of roughly $14 billion to perhaps $16 billion in the first quarter of 1951, $25 billion in the second quarter, $35 billion in the 1952 fiscal year, and in the neighborhood of $40 billion each in the next two years. That, I believe, was about the pattern looked for by most Washington experts.

Perhaps the entire picture has again changed as a result of developments of the past two weeks. Perhaps we are in an all-out war the end of which no one can see and the economic consequences of which may well be disastrous.

I hate to think so. I still hope that an honorable way can be found to avoid World War III.

For that reason, what I am about to say is based on the assumption that we will be living in a garrison state next year, rather than in a state of total war. If this assumption proves wrong, as it could fairly soon, one of those alterations of the pattern that I previously referred to will be in order.

Armament Costs

At any rate, on the basis of a semi-war economy, defense expenditures for the current fiscal year (ending June 30, 1951) are expected to total about $20 billion. Even if we should be involved in total war, it would be difficult to spend much more than that, but the collateral circumstances would be greatly different.

We don't have much information on the cost of the war to date. One of the Washington services intimated that the actual cost in materiel short away, payrolls, etc., and otherwise used up was in the neighborhood of $6 billion for the first four months of the Korean campaign. I have been unable to confirm that figure, but it seems a reasonable one. It would indicate that we can carry on a war of the proportions of the Korean campaign for about $20 billion a year, exclusive of the cost of building up the armed forces further; of stockpiling weapons and materials; in short, of preparing for a possible larger-scale war.

War contracts placed in the four months through October are said to have totaled $8 billion, more than half of that in aircraft, deliveries of which will necessarily be long delayed. I don't believe a single new tank has yet been built under an order placed since last June. The nature of decision on plans, tooling, etc., makes it fairly certain that Federal funds for defense purposes are unlikely to be flowing at much more than the present rate until the second quarter of next year.

With a cash surplus of some $200 million for the four months through October, as compared with a deficit of more than $1.6 billion in the corresponding period a year earlier, it still seems a fair bet that the Government will show a surplus of revenues over expenditures (on a cash basis) for the current fiscal year. This forecast takes into consideration the higher level of personal taxes, which has been an effective contributor to Treasury revenues for only a few weeks; the higher rate of corporate income taxes, which has not yet shown up in the Treasury statements; the so-called Mills Plan feature of the current Revenue Act, which provides that corporations must pay 60% of their tax on 1950 incomes in the first half of 1951 (against 50% a year earlier); the higher level of taxable corporate and personal incomes now prevailing, and the probability of higher tax rates to be enacted probably early next year.

Stimulus to Be Delayed

On this basis, the economy will get no real stimulus from Government deficit spending through March of 1951, and only a moderate stimulus in the June quarter.

Looking further ahead, suppose that defense expenditures should rise in the second half to a $40 billion annual rate, or about $25 billion above the current level, the combination of tax increases and increased taxable income might well absorb $10 billion of that amount. Reductions in other Government expenditures could well take care of another few billion. Don't laugh. Certain costs will come down almost automatically. ECA expenditures, for example, should be reduced to a nominal amount. The costs of farm price supports should likewise be close to zero.

On this basis, we would see an increase of defense expenditures by about $25 billion from the current rate of roughly $15 billion, but a total Federal deficit of only about $10-$15 billion.

Let's make some comparisons with World War II to see how important this would be. A $10 bil-

Continued on page 73

IBA PAST PRESIDENTS

1935 - 36 1934 1931 - 32


Orrin G. Wood


George W. Bovenizer


Allan M. Pope

Continued from page 77

Business Prospects and Pitfalls of 1951

lion annual deficit would be equivalent to approximately 4% of the current gross national product. It was 13.4% in 1942, 29.6% in 1943, 24.0% in 1944, 25.0% in 1945, and in the reconversion year 1946 amounted to 9.8% of the national product. A $10 billion deficit would have less effect on our vastly expanded economy than on the economy that existed in prewar days. For example, the $4.4 billion deficit of 1936 was equal to 5.3% of that year's gross national product.

Comparisons With Last War

Defense spending in the aggregate would be large at $40 billion, but is dwarfed in comparison with the figures reached in World War II. It is difficult to realize that the total for 1945 alone exceeded $90 billion, or 42% of that year's entire gross national product.

I am going to considerable pains to make these comparisons only because so many of the businessmen with whom we talk every day take it for granted that prospective military spending alone absolutely guarantees a continued peak rate of business activity for an indefinite time ahead. It is my contention that the actual increase in spending will itself have little direct effect through the first quarter of the calendar year 1951, and that it is possible to exaggerate its effects thereafter. That assumes, of course, that Congress does its plain duty in writing the next revenue measure and that we are not soon involved in a total war.

Consumer Spending

Next, let's take up consumer spending.

I think you will agree that consumers have overspent during the past five months. Their purchases of automobiles, television sets, and homes, in that order, have been little short of fantastic. They have hoarded at various stages coffee, nylon hosiery, sugar, and what have you. According to Department of Commerce computations, consumer savings in the third quarter amounted to little more than 3% of disposable income, as against 5.3% in the preceding three months and 7½% in the first quarter of the year. Granting that this is a residual figure in the national income computation and that it can never be a very accurate one, I believe the trend shown is probably realistic.

What, you may sensibly ask, is likely to change that pattern of free spending. The answer is that any voluntary change will probably be slight. With shortages and higher prices being preached from the housetops by almost everyone, I suspect the public will continue to be in a spending mood. Savings bond drives, however, will have some effect. Restrictions on instalment buying terms are having some effect, and stricter residential mortgage terms will cut home construction rather sharply (although it must be conceded that the results to date are not very spectacular).

More important than these as a restrictive force will be shortages of the things people most want. We have seen a 35% reduction in the civilian allowance of aluminum, and a 50% cut in cabalt. A relatively mild slash was ordered last week in copper use and one is probably ahead for steel. With less copper, the motor car industry must turn out fewer automobiles, whether demand exists or not. With electronic materials being taken by the government, fewer television sets will be produced, no matter how crying the demand. One leading radio executive tells us his expectation is for only two million television sets next year, compared with more than six million in 1950. This may be an extreme view, but is a distinct possibility.

Your next question may logically be, if defense spending is going to be slow in attaining momentum, are these shortages as a fairly near term possibility? The reply is that some of the shortages exist today (copper, for instance) without much in the way of defense spending and, secondly, that accelerated stock-piling will accentuate those shortages. We know absolutely nothing about the government's plans with respect to stock-piling of essential materials, except that they are ambitious. It is one of the areas in which we must fly blind for the present.

What I am trying to say is simply this: There will be imbalances during the conversion period that may be more important in holding down consumer spending than any restrictions imposed by Washington. Surpluses in some lines (I'll come to that later) won't compensate for shortages elsewhere. A man who has more than plenty of shirts isn't going to buy more just because he can't spend money for an automobile. He may take a trip he otherwise couldn't afford and he may have an extra drink or two, but the chances are he'll save a portion of that automobile dollar.

This doesn't mean that we expect total consumer spending to drop sharply in the months ahead. It does mean, however, that we doubt it will match the increase in consumer income or equal the level of production of civilian goods over the near term.

Business Expenditures

Which brings us obliquely to the third major element in the economic outlook — business expenditures. It must be considered in two parts, (1) expenditures for inventory accumulation and (2) expenditures for plant improvement and expansion.

It is the first part that interests me most in considering the immediate outlook. You are surely aware of the fact that inventory expansion has proceeded apace in the last few months. Using the Department of Commerce series, inventories rose by more than $2 billion in the third quarter, despite the shrinkage reported for July alone. This represents an annual rate of $8 billion. (In the corresponding quarter a year earlier, inventories dropped by $1.5 billion, or an annual rate of $6 billion.) In August and September alone, the inventory increase was more than $3 billion, or an annual rate of $18 billion. This at a time, mind you, when consumer buying was extremely high.

Let's play around with those figures for a moment. If there had been no inventory stocking this year, gross national product for the third quaretr would have been at a $276 billion annual rate, or 3% less than the amount reported by the Department of Commerce. If there had been no inventory reduction the year before, gross national product would have been at a $260 billion rate in the third quarter. On this basis, the year-to-year increase would have been only 6%, rather than the 18% rise actually reported.

This is extremely important, for inventory accumulation and reduction has been the major factor in determining business swings in recent years. To illustrate, the index of industrial production dropped from an average of 192 to 176 between 1948 and 1949, a de-

cline of 8.3%; and from a 1948 peak of 195 to a 1949 bottom of 166, a decline of almost 15%. During this period, government expenditures rose, building construction expanded sharply, and automobile production was steadily increasing. Moreover, total retail sales, which averaged $10.84 billion per month in 1948, were off only fractionally to $10.68 billion in 1949.

The production decline was largely one of inventory correction, with assists in the form of a shrinkage in capital expenditures of industry and a decline in the export surplus.

I've talked of inventory accumulation only through the third quarter, because September is the latest month for which Department of Commerce data are yet available. Subsequent figures on commercial loans, however, certainly indicate that the piling up of inventories has proceeded apace during October and November.

It is difficult to put your finger on exact spots in which inventories may be reaching danger levels. However, department store stocks and forward orders together at the close of September were equal to 4.7 times that month's sales. On the same date in both 1949 and 1948, the ratio was 4.1 times sales. It is clear that, unless holiday sales exceed the most optimistic present expectations and stores have been buying skimpily since September, they will find themselves in an uncomfortable inventory position.

Manufacturers, of course, sold all they could produce through August. In September, however, inventories in their hands began ot build up, and confidential reports to us from leading companies indicate that the increase was accelerated in October.

While we are on the subject of inventories, I should like to introduce a gadget we are in process of developing to measure "invisible" inventories in the textile industry. That is something that has bothered us for a long time. Mills never accumulate stocks until after buying has dried up and contract cancellations or extentions force them on the mills. Retail inventories don't tell the complete story. Goods in the hands of converters and the cutting-up trades are what I call invisible inventories, for they cannot be measured very accurately, and usually no one has more than a vague idea of what they amount to. It was those invisible inventories, building up in 1948, that brought the industry to some grief in 1949.

Our research department is attempting a rough measure by the following device: They take the total output of textile fabrics—cotton, wool and rayon, which they correct for price changes. This represents the inflow into the inventory trough. Then they take the total sales of textile departments of department stores, including women's a n d misses', men's and boys' furnishings, and basements, which represent outflow from the inventory trough. Dollar figures of the two, of course, are not comparable, so it is necessary to convert the series to index numbers with a common base; 1947 seemed to be a logical year, in which, from all accounts, there was neither pronounced accumulation or reduction of inventories. The subsequent movement is shown in a chart, which more or less accurately pictures the accumulation of 1948, the correction late that year and through 1949, and a build-up to peak 1948 proportions up to the middle of this year. Allowance must be made in the subsequent sharp advance for government takings, which are of indeterminable amount. In other words, the further inventory accumulation of soft goods since Korea has probably been considerably less marked than indicated by our chart, but nevertheless has been substantial.

Danger of Soft Goods Slump

On the basis of this study, which at this stage must be regarded as a crude indicator, as well as on the basis of indicated department store inventories, we conclude that there is a very real danger of a slump of some proportions in soft goods generally and textiles more specifically. With respect to timing, the logical time for any such reaction would be right after the first of the year.

This leaves one additional factor to be considered—the capital expenditures of industry. They will be higher next year than this—perhaps reaching a new peak above those of 1948. The variation in this component, however, is likely to be small relative to that in inventories. As currently estimated, 1950 expenditures for plant and equipment are placed at $17.9 billion, compared with $18.1 billion in 1949, and with $19.2 billion in 1948. A rise above 1948, therefore, could mean an increase of less than $2 billion.

It could be largely offset by a further shrinkage to the zero mark by our export balance, which has been declining steadily since 1947. In 1949 it was $5.4 billion; in the first nine months of 1950 it was $1,150,000,000. In August alone, an export deficit was shown for the first time in many years, and we would not be greatly surprised if in the coming year this country imported about as much as we export—exclusive, of course, of strictly military goods.

Now the problem is to dovetail all of these factors of government expenditures, consumer expenditures, and business expenditures into a cohesive whole and emerge with a pattern for the total economy. A little over-emphasis here and under-emphasis there can result in faulty conclusions.

Our weighting of the component considerations points to a pattern something like this: Using the Federal Reserve Board's index as a measure, we see the possibility of a dip from the current level of about 215 to little more than 200 in the first quarter of next year, but with a recovery thereafter to perhaps 220 or above as defense production really hits its stride. On this basis, the average for the year may well be in the neighborhood of 210-215, which would compare with a 1950 average of about 198.

We see some increase in unemployment shortly after the turn of the year, but excessive employment before the year is out. By excessive, I mean employment of many not now regarded as being members of the labor force and an increase in overtime.

Relative Price Stability

We see relative price stability through the first half of next year, with strength in metal prices largely offset by sporadic weakness in foods, building materials, and textiles. Much will depend, of course, upon the way in which developments turn on the war front, as well as whether and if controls are imposed.

We see businessmen in many lines confronted with the urge to lighten inventories after the first of the year. In some cases, that urge may be applied by their banks. If financially possible, we would hold on to inventories through any period of temporary price weakness, for replacement costs later in the year are likely to be higher.

We see corporate profits of about $38 billion before taxes, or approximately the same as those of 1950. No matter what form taxes may take, we believe they will absorb somewhere between 50% and 55% of taxable income, leaving perhaps $17 to $19 billion of net after taxes, which will compare with around $22 billion this year.

These are our best conclusions at the moment. And, to quote the hedge clause on all financial literature: "Information and advice are furnished without representation or responsibility as to accuracy or compelteness and without liability for any act or omission in collecting or providing the same."

Evans Adds Two

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, Ga. — George W. Monk and Irvin M. Tatum have joined the staff of Clement A. Evans & Company, Inc., First National Bank Building.

Foresees Further Contraction in Gold Output

Samuel Montagu & Co., London, leading bullion dealers, hold new supply of gold has fallen, while demand for it increased. Ascribes reduced gold production to fixed U. S. price in face of world wide wage commodity price rise. Sees no likelihood U. S. will raise dollar value of gold.

Under the caption "Is There Gold Enough in the World?," the November 15 circular of Samuel Montagu & Co., leading London bullion dealers, discusses recent declines in gold production and the possibility of a rise in the dollar price of gold.

Commenting on this topic, the publication states:

"In 1939, the world production of gold (excluding that of the U.S.S.R., for which no valid estimates are available) amounted to 34,600,000 fine ounces. In 1949, the comparable total was 23,850,000 ounces, a reduction of just over 31%. During 1949, the monetary gold reserves held in central banks and exchange equalization accounts rose by 10,950,000 ounces.

On this evidence, 12,900,000 ounces out of the 1949 production of 23,850,000 ounces, i.e. 54%, were mainly absorbed by industrial consumption and hoarding.

"The world's monetary reserves of gold in 1939 amounted to 759,000,000 ounces, and the proportion of new gold production to existing reserves was 4.6%. In 1949, with monetary gold reserves of 978,000,000 ounces, the ratio of newly-mined gold to reserves had fallen to 2.4%. World economic progress is estimated to proceed at the rate of 3% per annum. Whereas in 1939 the ratio of new gold produced to existing stocks was still well above this figure, it had fallen appreciably below it in 1949.

"The reasons for this sharp fall in gold production are not difficult to discover. The level of commodity prices expressed in terms of dollars has risen since 1939 by 136% in the case of raw materials and 101% in the case of manufactures—the latest indices based on prewar=100 being 236 and 201 respectively. Over the same period the dollar price of gold has remained unchanged. Gold may be a monetary standard but to its producers it is a commodity which will be mined only if it produces a profit. With costs of production rising since before the war, while the gold price has remained steady in terms of dollars, it is not surprising that production should have declined. The older mines are being worked out. Substantial tonnages of ore reserves have been falling below the level of marginal profit. It has been increasingly difficult to mobilize the necessary capital for the development of new fields. For these reasons, a number of producing countries have been constrained to give their gold producers subsidies—directly, as in the case of Canada, and indirectly, through the manipulation of the exchange rates, as in the case of a number of South American countries.

"The tendency towards a further contraction in the output of gold will be accentuated now that, with rearmament, a further impetus has been given to the rise in prices and costs, while the dollar price of gold remains fixed.

"Not only has the production of gold been falling, but the demand for it has risen and is likely to increase further.

"Since 1939, there has been a tremendous expansion in the volume of money in circulation and bank credit for which gold has to act as the ultimate reserve. Converted into U. S. dollars, the world's money supply, i.e. currency and bank deposits, in 1939 was around $57,000 million, while in 1949 it was $170,000 million. In 1939, the ratio of gold to currency and credit in the world was about 46%. It had fallen to 20% in 1949. If the prewar ratio of gold to money supply were to be restored, the value of the gold in reserve would, therefore, have to be more than doubled. It has also been calculated that, if the world's gold reserves were to be adjusted to the change in prices which has occurred since 1939, they would have to be raised from the existing figure of about $34,000 million to about $70,000 million.

"Many countries whose reserves have been seriously reduced, or in some cases have disappeared altogether, will want to build them up again, both for domestic reasons and meeting their net external payments. In particular, gold transfers are required when balances of payments are disturbed by movement of capital—including hot money. The volume of hot money in the world today is greater than it has ever been. One example of what it can do is the way in which the British gold reserve fell before the devaluation of sterling—from $2,241 million in March, 1948, to $1,340 million in September, 1949 — then up again to $2,756 million in September, 1950. This occurred in the gold reserve of a country with the best exchange control in the world. A number of countries in the sterling area, among them India and Pakistan, want to accumulate independent gold reserves in the form of London balances. Egypt is another country which has recently been exchanging dollars for gold and will continue to do so as opportunity occurs. South American countries are taking every opportunity of building up gold reserves in preference to dollar or sterling balances.

"However much the world may use new international institutions like the International Monetary Fund and the European Payments Union in order to make international payments, gold remains the ultimate means of settling balances. Within three months of E.P.U. coming into operation, this new mechanism was using gold, paying it to France and taking it from Germany. Already Germany is beginning to find great difficulty in putting its hand on enough gold and dollars to meet its E.P.U. obligations.

"The supply of gold has fallen, the demand for it increased. Will the law of supply and demand come into operation and restore the balance? The answer to this question is not merely a matter of assessing the economic forces that would operate in a free market; for the near future, at least, it is largely a matter of analyzing the policy and motives of the United States authorities. These are the main considerations which are likely to weigh with the U. S. authorities for some time to come—

"(1) The United States are at present mainly concerned about fighting inflation and moderating a rise in wages, costs and prices, which in any case, promises to be considerable. In those circumstances they will see no sense in creating an inflationary expansion of their credit and currency basis by writing up the dollar value of their gold reserves.

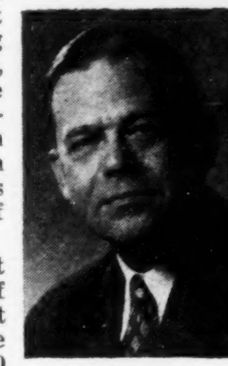
"(2) The United States are not yet suffering from a shortage of gold. Although they have lost $1,137 million of gold since the beginning of this year, and $1,300 million over the past 12 months, they still hold over $23,000 million, which is equal to 52% of the current liabilities of the Federal Reserve Banks. The statutory minimum reserve is 25%, so that a considerable margin of cover remains.

"(3) The President of the United States has lost his power to alter the parity of the dollar by executive action and it would, therefore, need fresh legislation to write up the value of gold and devalue the dollar. The vested interests of gold producers in the United States are negligible and there is no lobby in Washington representing the gold industry as there is for silver producers. It follows that there would be no such powerful support behind any legislation to write up the value of gold.

"On this reasoning, the only possibility of a rise in the dollar price of gold would seem to lie either in such a loss of gold by the United States (anything up to $8,000 million hot money is held in the United States) or such an inflation of currency and credit that the ratio of gold reserves to central bank liabilities would fall near the legal minimum of 25%. This is not likely to occur in the near future."

Welsh, Davis Staff On Jan. 1 Will Join Mullaney, Wells Co.

CHICAGO, Ill.—The staff of Welsh, Davis and Co., Chicago, will join with Mullaney, Wells & Co., 135 South La Salle Street, on Jan. 1, Paul L. Mullaney, President of the latter company, has announced. DeWitt Davis, President of Welsh, Davis and Co., will become Vice-President of Mullaney, Wells & Co., and John F. Partridge, Executive Vice-President, will become Assistant Vice-President. Welsh, Davis and Co. will continue in business, specializing in southeren municipal bonds, and Mr. Davis and Mr. Partridge will divide their time between the two firms. The Welsh, Davis office and staff will join with Mullaney, Wells & Co. Both firms were organized in Chicago in 1938.



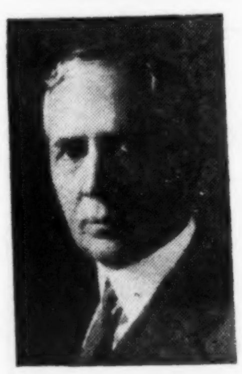

DeWitt Davis John F. Partridge

Mr. Davis has been in investment banking since 1929, following graduation with the M.B.A. degree from the University of Michigan. From 1929 to 1933 he was with A. G. Becker & Co. as investment analyst. He was Vice-President of Welsh and Green, Inc., from 1934 until 1938, and then served as Vice-President of Welsh, Davis and Co. until 1941, and as President since 1946. During World War II he was a Lieutenant Commander in the U. S. Navy.

Mr. Partridge, who is an attorney and a C.P.A., received his B.S. in Business Administration from the University of Florida and served on the faculty at the University of Iowa in 1936 and 1937. He joined Welsh and Green, Inc., in 1937 as investment analyst and continued in that capacity with Welsh, Davis and Co. in 1939, becoming a Vice-President in 1941 and Executive Vice-President in 1948.

IBA PAST PRESIDENTS

1930 - 31 1929 - 30 1927 - 28



Henry T. Ferriss

Trowbridge Callaway

Henry R. Hayes

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

At a regular meeting of the board of directors of **The National City Bank of New York,** held on Dec. 12, John A. Herber was appointed an Assistant Vice-President. He was formerly an Assistant Cashier.

* * *

The United States Trust Company of New York, in announcing that its board of trustees has declared a regular quarterly dividend of $8.75 per share, payable Jan. 2 to stockholders of record Dec. 11, states that the dividend is on the stock outstanding before the declaration by the board of the 150% stock dividend, payable Dec. 27 to stockholders of record Dec. 11. Reference to the 150% stock dividend approved by the stockholders on Dec. 5 was made in our Dec. 7 issue, page 2195.

* * *

The Chemical Bank & Trust Co. of New York, it is announced, has awarded a contract to John W. Harris Associates, Inc., for the construction of a new office in the building known as 100 Park Avenue to serve the Grand Central area. The contract, together with the cost of installation and furnishings, calls for an expenditure of approximately $600,000, and the completion date is set for April 1, 1951. Walker & Poor of New York are architects on the project. The bank will occupy the basement, main floor and a mezzanine on the southwest corner of Park Avenue and 41st Street. The basement will house the bank vault, safe deposit department and related facilities. The mezzanine, which will overlook the main banking floor, will include office areas, a board room and lounges.

* * *

Joseph G. Munz, Vice-President of the **Hamburg Savings Bank, of Brooklyn, N. Y.,** was elected President of the Bankers Club of Brooklyn on Dec. 12, at its annual dinner meeting at the Towers Hotel in Brooklyn. Mr. Munz is a member of the Executive Committee of Group V Savings Banks Association, Chairman of its Public Relations Committee serves on the Mortgage Committee of the Savings Banks Association of the State of New York, and is active in other banking affairs. Serving with Mr. Munz during the coming year will be: Vice-President, Carl J. Mehldau, Vice-President Kings County Trust Company; Secretary, John Heinrich, Assistant Vice-President Lincoln Savings Bank, and Treasurer, Alfred M. Olsen, Cashier Lafayette National Bank.

Dr. William A. Irwin, economist for the American Bankers Association and Associate Director of the Graduate School of Banking at Rutgers University, addressed the 250 bankers present. His subject was "Economics of a Garrison State." Guests of honor at the affair were 14 Presidents of savings banks in Brooklyn.

* * *

The sale of $100,000 of new stock of the **Richmond County National Bank of Port Richmond, New York,** has served to increase the capital of the bank from $200,000 to $300,000. The enlarged capital became effective Nov. 30.

* * *

The **Long Island National Bank of Hicksville, N. Y.,** has increased its capital as of Nov. 27 from $120,000 to $315,000; part of the increase resulted from a stock dividend of $120,000, while the $75,000 additional was brought about by the sale of new stock of that amount.

* * *

The **Endicott National Bank of Endicott, N. Y.,** increased its capital, effective Nov. 20, from $100,000 to $200,000 by a stock dividend of $100,000.

* * *

Plans whereby the **National Newark & Essex Banking Company of Newark, N. J.,** would buy the assets of the **Caldwell National Bank of Caldwell, N. J.,** were announced on Dec. 5 by Roger G. Cowan and Roscoe De Baun, Presidents, respectively, of the two institutions. The Newark "Evening News" of Dec. 5 reports that under the plans the National Newark bank would buy the assets of the Caldwell National and assume its liabilities on Dec. 15. The paper referred to further said:

"The 5,000 outstanding common shares of the Caldwell bank would be retired by a cash payment, expected to be in excess of $95 a share. Present book value of the stock is $70.

Acquisition of the approximately $7,500,000 assets of Caldwell National would raise assets of the Newark bank to $150,000,000."

The Caldwell National Bank was founded in 1904. From the Newark paper of Dec. 5 we also quote:

"Acquisition of the Caldwell bank is the second such move by National Newark this year. On June 30 it took over the **Bank of Montclair,** the first banking office established by the bank outside of Newark. Also, on Oct. 2, it opened a banking office at 550 Frelinghuysen Avenue, here.

"The entire present staff of the Caldwell bank will be retained and will continue at the Caldwell institution, which will be known as the Caldwell Office of the National Newark & Essex Banking Co."

The taking over of the Bank of Montclair by the National Newark & Essex was noted in our issue of June 15, page 2496, and July 27, page 357.

* * *

Directors of **The National Bank of Germantown and Trust Company of Philadelphia** have declared a semi-annual dividend of 60 cents per share and an extra dividend of 25 cents per share on the capital stock payable Jan. 2, 1951, to stockholders of record Dec. 22.

* * *

The placing in liquidation of the **First National Bank in Cecil, Pa.,** as a result of its absorption by the **First National Bank of McDonald, Pa.,** is indicated in the Dec. 4 bulletin of the Comptroller of the Currency. The Cecil bank had a capital of $50,000.

* * *

The Traverse City State Bank of Traverse City, Mich., a State member bank of the Federal Reserve System, and **The State Bank of Suttons Bay,** at **Suttons Bay, Mich.,** an insured non-member bank, were consolidated on Nov. 20 under the charter and title of the Traverse City State Bank. The Board of Governors of the Federal Reserve System stated that in connection with the consolidation a branch was established at Suttons Bay.

* * *

As a result of a stock dividend of $100,000, the capital of the **Citizens National Bank of Waukegan, Ill.,** was increased, effective Nov. 22, from $200,000 to $300,000.

* * *

An addition of $100,000 to the common capital stock of the **Union National Bank of Eau Claire, Wis.,** by a stock dividend of that amount, increasing the capital from $400,000 to $500,000, is reported by the Office of the Comptroller of the Currency at Washington. The enlarged capital became effective Nov. 21.

* * *

The sale of $50,000 of new stock of the **Fifth Northwestern National Bank of Minneapolis, Minn.,** has increased the capital of the bank (effective Nov. 27) from $100,000 to $150,000.

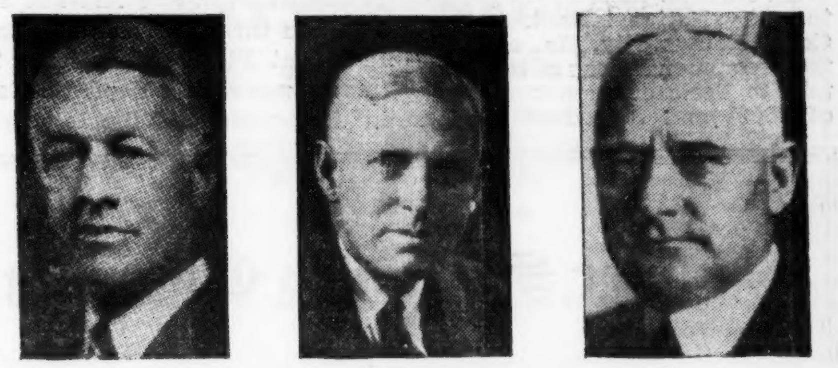
* * *

William A. Denecke, Jr., of Bozeman, Mont., and Harold N. Thomson, Presho, S. Dak., were named to the board of the **Federal Reserve Bank of Minneapolis** at the annual election of directors on Nov. 21, Roger B. Shepard, Board Chairman, announced. Both will serve three-year terms beginning Jan. 1, next. Mr. Denecke, a commercial sheep rancher, is presently director of the bank's branch at Helena, Mont. He was elected a Class B Director, representing commerce, industry, and agriculture. Mr. Thomson, Vice-President of the **Farmers & Merchants Bank at Presho,** was named a Class A, or banker, member of the nine-man board. Mr. Denecke, who will replace Walter H. McLeod of Missoula, Mont., on the board, is a native of Wyoming and has been engaged in sheep ranching since his graduation from the University of Idaho in 1920. For 10 years he was associated with the U. S. Department of Agriculture; he is past President of the Montana Woolgrowers association and of the Columbia Sheep Breeders of America. Mr. Thomson, has been in banking for 25 years and is past President of the South Dakota Bankers association and of the State Bank Di-

Continued on page 82

IBA PAST PRESIDENTS

1926-27 1925-26 1922-23



Pliny Jewell Ray Morris John A. Prescott

Continued from page 81

News About Banks and Bankers

vision of the American Bankers Association. He is also a member of the South Dakota Banking Commission and a regent of the Graduate School of Banking, Rutgers University, from which he graduated in 1940. He will replace J. R. McKnight, Pierre, S. Dak. banker who was not a candidate for reelection.

* * *

Enlargement of the capital of the **First National Bank of McCook, Nebraska,** as of Nov. 17, from $100,000 to $200,000 is reported as a result of a stock dividend of $100,000.

* * *

Following the declaration of a stock dividend of $100,000, the **Beatrice National Bank of Beatrice, Neb.,** reports a capital of $200,000, (effective Nov. 8) increased from $100,000.

* * *

On Nov. 22 the stockholders of the **City National Bank & Trust Co. of Kansas City, Mo.,** approved the recommendations of the directors to declare a stock dividend of 100% and to reduce the par value of the stock from $100 to $25 per share. Details of the plans, which would increase the capital from $2,000,000 to $4,000,000 were given in our issue of Oct. 26, page 1604.

* * *

Through a stock dividend of $100,000, the **Citizens National Bank of Chillicothe, Mo.,** has been increased as of Nov. 8, from $100,000 to $200,000.

* * *

Ground breaking ceremonies marking the beginning of construction on the new building of the **Republic National Bank of Dallas** were held on Nov. 29. President Fred F. Florence scooped the first dirt from the ground. The new $17,500,000 Republic building, which will rise a total of 600 feet above the ground, was lauded by various Dallas civic and business leaders who spoke at the ceremony, and the activities were broadcast over one AM-FM station and three television stations. President Florence reviewed the importance of the Republic Bank in the progress of the last three decades of Dallas and the Southwest, and said that "the breaking of ground on this site marks the beginning of a new era, not only in the history of the Republic Bank but in the history of Dallas and the Southwest."

* * *

The **First National Bank of Beaumont, Texas,** reports a capital of $1,000,000, as of Nov. 22, the amount having been increased from $800,000; $200,000 of the addition resulted from a $200,000 stock dividend; the further $200,000 increase came from the sale of new stock of that amount.

* * *

Frank L. King, President of **California Bank, of Los Angeles,** announces that the bank's directors and the directors of **The Whittier National Trust and Savings Bank, of Whittier, Calif.,** have approved an agreement whereby California Bank will purchase the business of The Whittier National Trust and Savings, the sale and purchase being subject to the approval of the shareholders of each bank. It is expected, that actual transfer of the business will take place as of Dec. 16, or as soon as the necessary legal formalities have been concluded. According to Mr. King, all present active officers and employees of The Whittier National Trust and Savings Bank will continue in their respective positions. The Whittier institution has been under the same management since it was established on Oct. 1, 1901, as the Whittier Bank. In 1905 it became the Whittier National Bank and on July 1, 1930, it was consolidated with its affiliated institution, the **Home Savings Bank,** the name then being changed to The Whittier National Trust and Savings Bank.

* * *

At the annual meeting of the shareholders of the **Bank of Montreal, Montreal** (head office), Louis L. Lang was elected a Vice-President of the bank. Clarence Wallace, C. B. E., Lieutenant-Governor of British Columbia was elected to the bank's board of directors. Mr. Lange is President of the Lang Tanning Co., Ltd., and of the Mutual Life Assurance Company of Canada. He succeeds Major-General S. C. Newburn, statesman, industrialist and soldier, who will retain his seat on the bank's board of directors, while relinquishing the Vice-Presidency. Mr. Wallace, who is President of the Burrard Dry Dock Co., Ltd., succeeds William G. Murrin, former President of the B. C. Electric Railway Co., Ltd., who has been a member of the bank's board since 1936.

IBA PAST PRESIDENTS

1920-21

Roy C. Osgood

1915-17

Lewis B. Franklin

Investment Week at Syracuse University

An "Investment Week" display—the first of its kind to be put on by an educational institution—is being featured from Dec. 11-15 on the Syracuse University campus.

Jointly sponsored by the finance department of Syracuse University's College of Business Administration and Delta Phi Sigma, finance honorary, the week-long exhibit is designed to familiarize the students, faculty and the general public with the functions and operations of the securities industry, particularly the New York Stock Exchange.

The campus exhibition is designed to show people who have never been inside of a broker's office or who have never seen a stock or bond certificate, how the securities business operates.

One feature of the exhibit will be a simulated brokerage office, equipped with three tickers—the New York Stock Exchange ticker, the Curb Exchange ticker and the Dow-Jones news ticker. All three will be in full operating during the five-day display, transmitting regular financial information. Besides an exhibit of stock and bond certificates by the American Bank Note Co., Bache & Co., Reynolds & Co., Vance, Sanders & Co. and the Syracuse First Trust and Deposit Co. have prepared educational displays dramaticizing phases of the securities industry.

The idea for the Investment Week was originated by Robert Menschel, President of Delta Phi Sigma, because of his belief that the security industry is either not understood at all or is unfortunately misunderstood by the vast majority of the public.

Besides the display the Stock Exchange movie, "Money at Work," and a film on the Federal Reserve will be shown continuously during the week. Among the speakers during the week will be Lewis Gilbert, nationally known minority stockholder, and William Pope, a local securities dealer.

Bartow Leeds Admits Minker to Partnership

Bartow Leeds Co., 57 William Street, New York City, dealers in United States Government, state and municipal bonds, announce that Andrew J. Minker has been admitted as a general partner. Mr. Minker has been with the firm as cashier.

New Orleans S. E. Elects Officers

NEW ORLEANS, La.—Macrery B. Wheeler, Wheeler & Woolfolk, Inc., was elected President of the New Orleans Stock Exchange, to succeed Walter D. Kingston, W. D. Kingston & Co., President for the past two years.

Macrery B. Wheeler

John B. Shober, Woolfolk & Shober, was chosen Vice-President, and Erwin Schweickhardt, Schweickhardt, Landry & Co., was named Treasurer.

Elected to the Board of Governors were M. A. Willem, Beer & Co.; Larz E. Jones; George H. Nusloch, Nusloch, Baudean & Smith, and Walter D. Kingston. Officers of the Exchange serve as members of the Board, ex-officio.

Continued from page 5

The State of Trade and Industry

price hikes of $60 to $80 on 1951 Chevrolet cars which were to be offered during the past week. Proportionate advances are expected on the soon-to-be-introduced new models of Pontiac, Oldsmobile, Buick and Cadillac.

The price of synthetic rubber on which the government has a production monopoly, was increased. The Reconstruction Finance Corp., which manages the Federally-owned synthetic rubber industry, boosted general purpose synthetic to 24.5 cents a pound, a six-cent increase, effective on Thursday of last week. In rubber circles in Akron it was predicted the government would peg the price of natural rubber shortly at 50 cents to 55 cents a pound. Its cash price on Wednesday of last week was 67½ cents.

This week the National Production authority took definite steps to cut the use of natural rubber by ordering rubber manufacturers to effect a reduction of 11% in January and 22% in February.

Makers of tires, tubes and other rubber products will be allowed to use enough additional synthetic rubber during the two months to make up for the reduced consumption of natural rubber. The net result will be that they can use 90,000 tons of new rubber, natural or synthetic, during each of the two months.

Total personal income ran at a yearly rate of $230,100 million during October, or $1,400 million higher than September, the previous record month, the Department of Commerce reveals.

Increased payrolls by manufacturing companies and Federal, State and local governments were the principal cause of the overall income rise. Along with somewhat higher earnings by farmers and bigger social security payments, they more than offset a decline in corporate dividend payments.

Wages and salaries mounted to an annual rate of $153,100 million in October, compared with $150,600 million in the previous month. Factory payrolls made up $53,100 million of this total, rising $1,100 million from the previous month. Expanding armed forces caused most of the increase in government wages and salaries, advancing from $23,700 million in September to $24,700 million.

Larger crop marketings were behind an increase in farmers' earnings. Total incomes of all unincorporated businesses — farm and non-farm—plus earnings of landlords gained from an annual rate of $45 billion in September to $45,600 million in October.

Steel Output Scheduled to Exceed Last Week's Capacity by 0.8 of a Point

This week many manufacturers find themselves suspended in a vacuum between their regular peacetime production and military orders, according to "The Iron Age," national metalworking weekly, in its current summary of the steel trade. Their regular production is being strangled by material restrictions and defense orders are not coming fast enough to take up the slack.

The result is that a few firms have already found it necessary to lay off workers. Others may have to follow suit if they can't obtain some defense business. What these firms fear most is that they will lose experienced workers at a time when a critical labor shortage is just around the corner.

Several new steel allocation programs will soon be announced. A locomotive building program, now in the final planning stage, will take about 70,000 tons of steel per month during the second quarter. Canadian freight car builders are expected to get 8,000 tons monthly. The petroleum industry and agricultural equipment makers will also get a share, this trade paper states.

The petroleum people alone estimate next year's steel needs at 11.9 million tons. This program will probably be pared down to about 8 million tons before it is finally approved.

Price-wage controls are also only a matter of time. One thing holding them back now is that there is no staff to administer them. When they come they will be on a selective basis, and they will probably hit scrap, nonferrous metals and steel in that order. If prices of some items start to get out of hand there is a chance that price controls on them might be placed in effect at once.

Wage controls will not be airtight, but will allow for a cleanup of fifth-round demands. And they will permit elimination of inequities and some merit increases.

This week the cry for steel is louder in all areas, this trade authority reports. Producers are still one to two months behind on deliveries, and DO orders are becoming more extended. Before the limits were raised on DO orders some producers had booked DO's on some items as far ahead as July. They believe that the higher limits will be filled quickly.

Prices of steelmaking scrap are higher in all areas. Increases at Pittsburgh, Philadelphia and Chicago raised "The Iron Age" steel scrap composite price by $4.33 a gross ton to $45.08 per gross ton.

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 94% of the steelmaking capacity for the entire industry will be 101.3% of capacity for the week beginning Dec. 11, 1950, compared to an average of 100.5% a week ago, or a rise of 0.8 of a point.

The rate for the current week approximately 1.7 points, the record high reached in the week of Nov. 6.

This week's operating rate is equivalent to 1,953,800 tons of steel ingots and castings for the entire industry, compared to 1,938,400 tons a week ago. A month ago, based on new capacity, the rate was 102.7% and production amounted to 1,980,800 tons; a year ago, it stood at 94.1% and 1,734,700 tons.

Electric Output Makes New Historical High Record

The amount of electrical energy distributed by the electric light and power industry for the week ended Dec. 9 was estimated at 6,908,631,000 kwh., according to the Edison Electric Institute.

Electric output in the above week attained a new historical high record for the industry.

It was 192,358,000 kwh. higher than the figure reported for the previous week, 1,027,271,000 kwh., or 17.5% above the total output for the week ended Dec. 10, 1949, and 1,203,808,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Advance 5.5% in Post-Holiday Week

Loadings of revenue freight for the week ended Dec. 2, 1950, totaled 739,922 cars, according to the Association of American Railroads, representing an increase of 38,501 cars, or 5.5% above the preceding week, which included Thanksgiving holiday.

The week's total represented an increase of 45,999 cars, or 6.6% above the corresponding week in 1949, but a decrease of 64,250 cars, or 8% below the comparable period of 1948.

Auto Output Advanced Further in Latest Week

Combined motor vehicle production in the United States and Canada the past week, according to "Ward's Automotive Reports," totaled 159,862 units, compared with the previous week's total of 152,107 (revised) units and 52,514 units a year ago.

Total United States production thus far this year attained a total of 7,563,000 cars and trucks.

Total output for the current week was made up of 127,502 cars and 24,694 trucks built in the United States and a total of 6,097 cars and 1,569 trucks built in Canada.

For the United States alone, total output was 152,196 units, against last week's revised total

Continued on page 84

Continued on page 83

The State of Trade and Industry

of 147,300 units, and in the like week of last year 46,667. Canadian output in the week totaled 7,666 units compared with 4,817 units a week ago and 5,847 units one year ago.

Business Failures Move Moderately Upward

Commercial and industrial failures increased to 170 in the week ended Dec. 7 from 160 in the preceding week, according to Dun & Bradstreet, Inc. Despite this rise, casualties were not as numerous as a year ago when 191 occurred, but they remained above the 122 in the similar week of 1948. Continuing well below the prewar level, failures were down 43% from the 1939 total of 297.

Small casualties, those involving liabilities under $5,000, accounted for the week's increase.

Most of the week's upswing was concentrated in manufacturing. Mild increases also took place in retailing and commercial service. Wholesaling and construction failures declined. Except in wholesale trade where mortality equaled last year's level, casualties were less than a year ago. The most marked decline appeared in manufacturing.

Slight weekly increases occurred in five regions, including New England, Middle Atlantic, and the Pacific States. The East and West North Central States reported decreases during the week. More businesses succumbed than last year in the West North Central, West South Central, and Pacific States, while they remained at the same level in the Middle and South Atlantic Regions. Declines from 1949 were reported in the New England, East North Central, East South Central and Mountain States.

Wholesale Food Price Index Highest Since Sept. 21, 1948

Extending the current upward movement, the wholesale food price index, compiled by Dun & Bradstreet, Inc., rose 1.5% to $6.77 on Dec. 5, from $6.67 the week before. This brought the latest figure to the highest level since Sept. 21, 1948, when it stood at $6.82. It marks a rise of 4.5% over the post-Korea low of $6.48 on Oct. 10, and a gain of 13.6% above the June 20 index of $5.96, just before the start of the Korean war. Compared with $5.76 a year ago, this week's figure shows an increase of 17.5%.

The index represents the sum total of the price per pound of 31 foods in general use and its chief function is to show the general trend of food prices at the wholesale level.

Wholesale Commodity Price Level Advances Slightly in Week

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., rose to a new high of 305.00 on Dec. 2, but subsequently turned downward to close at 302.79 on Dec. 5. This compared with 302.02 a week earlier, and with 247.47 on the like date a year ago.

Grain markets last week were nervous and unsettled as a result of the adverse trend of the war news in Korea.

The general undertone was firm, however, and most grains finished with net gains for the period. Wheat averaged higher in relatively slow trading with a better buying interest noted in the cash market. The country movement of wheat remained light although above that of the previous short holiday week. Trading in corn was active with prices firm to higher. Cash corn rose to new high ground since October, 1948, with current prices slightly above the government loan level. Country marketings of the yellow cereal, however, remained small with farmers reported to be holding for much higher prices. Market receipts of oats were extremely small despite near-record stocks in farmers' hands. The volume of trading in grain futures on the Chicago Board of Trade last week totaled 267,523,000 bushels, or a daily average of 44,700,000. The latter compared with 41,600,000 bushels the previous week, and 41,500,000 in the same week last year.

Demand for hard wheat bakery flours continued on a limited basis with prices holding steady throughout the week. Although cocoa finished higher than a week ago, trading turned cautious and prices trended lower at the close as a result of uncertainties and fears of price controls. Warehouse stocks of cocoa continued to decline, establishing a further new low for the year.

Demand for refined sugar showed improvement at the weekend, reflecting increased distributor buying interest.

The spot raw sugar market turned upward under the influence of higher freight costs. Cottonseed oil developed an easier trend in closing sessions. Lard was firm and higher, aided by an active export demand. All classes of livestock on the Chicago market closed the week on a firm-to-higher tone, with steers advancing to new high levels for the season.

Raw cotton prices fluctuated irregularly over a wide trading range last week.

Heavy liquidation toward the end of the period, influenced by fears of price control legislation, resulted in sharp losses in both spot and futures markets.

The New York spot quotation closed at 42.30 cents a pound, as compared with the recent all-time peak of 44.80. The mid-November parity price for cotton, as announced by the Department of Agriculture, showed a rise of 25 cents from a month previous to a new all-time high of 32.12 cents a pound. The movement of the staple into the government loan continued at a very low rate, totalling only about 4,000 bales for the season through Nov. 23, as compared with 1,225,000 bales in the same period last year.

Trade Volume Reflects Upward Trend With Return of Seasonable Weather

Resurging to the fairly high level of past weeks, nationwide consumer spending reflected the return of seasonal Fall weather in the period ended on Wednesday of last week. The total dollar volume of sales was moderately above the level for the comparable period last year and buying in many sections increasingly stimulated by the approach of Christmas, states Dun & Bradstreet, Inc., in its current summary of trade.

Shoppers bought slightly more apparel than in the preceding week with sales volume somewhat above the level of a year ago. Sportswear continued to be fast-selling; woolen skirts and lace-trimmed blouses for women, as well as sport shirts for men, were especially sought. There was a seasonal rise in demand for Winter suits and formal dresses; the interest in budget dresses was generally limited. Tweed was increasingly favored in business suits for men.

The retail dollar volume of food increased slightly during the week and sales were moderately above the level of a year ago.

Many items of canned goods were popular with housewives; canned vegetables were in partocular demand in some vicinities. Consumers requests for fresh meat declined very slightly, reflecting price rises for some cuts.

The Yule spirit helped to lift the sale of consumers' durables appreciably above the level of the preceding week; dollar volume was sustained noticeably above a year ago. There was a rising demand for small household articles such as tableware, smoking equipment, small furniture, and novelties. The interest in many electrical items was virtually unchanged, while the buying of large appliances was limited in some sections.

Total retail dollar volume in the period ended on Wednesday of last week was estimated to be from 4 to 8% above a year ago. Regional estimates varied from the levels of a year ago by these percentages:

New England +5 to +9; East, Midwest and Pacific Coast +4 to +8; South +2 to +6; and Northwest and Southwest +3 to +7.

Wholesale buying rose slightly during the week and total dollar volume of orders was appreciably above the level for the similar week in 1949. While the number of buyers attending the various wholesale markets increased somewhat from the previous week, it was slightly below the level of a year ago.

There was a noticeable increase in the ordering of some items of apparel the past week with aggregate volume modestly above that of the similar 1949 period.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Dec. 2, 1950, declined 1% from the like period of last year. This compared with a decrease of 3% for the previous week. For the four weeks ended Dec. 2, 1950, sales showed a rise of 2% from the corresponding period a year ago and for the year to date registered an advance of 5%.

With the advent of the Christmas holidays department store sales in New York the past week increased about 3% from the like period of 1949.

According to the Federal Reserve Board's index, department store sales in New York City, for the weekly period to Dec. 2, 1950, advanced 2% from the like period of last year. In the preceding week a decrease of 12% was registered from the similar week of 1949. For the four weeks ended Dec. 2, 1950, no change was registered from a year ago, and for the year to date, volume advanced 1% from the like period of last year.

Municipal Securities Firm in New York

Announcement is made of the formation of Municipal Securities, Inc., with its principal office at 70 Pine Street, New York City. The new corporation is headed by Edward F. Wrightsman who has specialized in revenue bonds for many years.

E. F. Wrightsman

The primary purpose of the new organization is to originate, analyze and underwrite tax exempt revenue bond issues with complete facilities for analyzing and determining their feasibilities prior to actual marketing. It will provide complete engineering and financial data, thus making comprehensive research information available to municipalities and dealers.

This firm is initially sponsored by Byrne and Phelps, Inc., New York City; McDougal & Co., Chicago; Shannon & Co., Detroit; First Securities Corp., Durham, and Emerson Cook Company, Palm Beach, and will maintain offices in those cities.

Continued from page 10

Our "Fluid" Defense Against Inflation

goods and to substitute increased savings in the form of purchases of Federal savings bonds and insurance, increasing savings deposits, etc.

(2) Borrowing for the purchase of consumer goods—automobiles, household appliances, home modernization, furniture, etc. Credit in this field has increased four billion dollars in the past year and it now totals nineteen billion dollars, which must be paid out of future income. This is 10% of a whole year's disposable income of the nation.

The defense set up against this pressure toward higher prices is Regulation W, with whose terms this audience is fully familiar. We have all been curious as to the effects of the Regulation and the monthly estimate as of the end of October was awaited with considerable suspense. When the mass of statistics was assembled, it was found that the increase in consumer credit had been checked although not entirely eliminated. In place of a monthly increase ranging from 464 million dollars to 644 million dollars as had occurred during the third quarter of the year, the October increase was only 51 million dollars. It is still too early to say whether this development was caused principally by the tighter terms of Regulation W imposed on Oct. 16 or whether it was a complex of other factors, such as the slowing down of automobile sales due to preparation for new models, a slowing down in consumer buying due to the heavy buying of last summer or other factors. We shall need to observe the course of consumer credit in future months for a better interpretation of the causes. One development in October which was not caused by Regulation W was the decrease of 38 million dollars in charge account credit.

(3) Borrowing for the construction of housing. Real estate credit has expanded between four and five billion dollars in the past year and it is now estimated that the American public owes 41 billion dollars for housing. This tremendous growth of credit which made possible the new high record in residential construction in 1950 has also made possible a tremendous consumption of materials and a use of manpower at a level which if continued might slow down the defense effort. The defense set up against this type of credit pressure toward higher prices is Regulation X, authorized by the Defense Production Act of 1950 and inaugurated with the concurrence of the Federal Housing and Loan Administrator. Here again this audience is familiar with the terms of the Regulation, which at present is limited to terms for the purchase of new homes and for loans on existing homes when insured by the Federal Housing Administration. I cannot report any measurement of the effectiveness of Regulation X which went into effect on Oct. 12, 1950. Something like four hundred thousand housing units were in the commitment stage on Oct. 12, not counting houses already under construction. Thus, the building industries will continue to be active for many months to come before the effects of Regulation X become apparent. Furthermore, there is not as yet any regulation in the rental housing field although this area may be regulated under the Defense Production Act.

(4) Bank loan expansion This is listed as one of the forces working toward higher prices in view of the fact that bank loan expansion since mid-year has totaled the amazing sum of six billion dollars, much the largest autumn expansion in history. It is a simple fact that each dollar of bank credit perforce increases bank deposits and thus adds a dollar to the money supply. I might add that bank loan dollars are very active dollars because businessmen and individuals do not borrow unless they have the immediate intention of spending the proceeds.

The picture of bank credit expansion is somewhat modified by the fact that one half of the effect on the money supply of the bank loan expansion this fall was offset by sales of government securities out of bank portfolios. A portion of these securities was sold to the Federal Reserve Banks through the money market to obtain more reserves required by the increase in deposits at member banks. A portion of the securities was bought by government trust funds like the unemployment insurance trust fund, whose assets have been growing during this period of near full employment. Another part of the government securities was bought by corporations whose liquid asset position has been improving under today's conditions of full production and profits.

Nevertheless, in spite of the offsetting sales of government securities, some of which have drawn down bank deposits, the net bank credit expansion since mid-year was $3 billion, representing a 2% rise in the money supply of the country.

I do not need to tell this audience that bank credit is a very complex affair. It ranges all the way from consumer finance on the one hand to loans for defense production on the other. In between are the normal loans to finance crop moving and loans to business to provide normal inventories, plant expansion and the growth of receivables which occurs every fall.

What Causes Increase in Bank Loans?

In the week before Thanksgiving the Federal Reserve authorities made a spot check to see what had been causing the increase in loans at some of the largest banks in the United States. Information was requested from 71 banks whose combined loan increase since June 30 was two billion sixty-five million dollars or approximately one-third of the increase at all banks in the country. At these banks about 60% of the total increase was in loans to commodity dealers and processors of agricultural commodities as follows:

Cotton	$487 million
Other commodities	203 million
Food and liquor mfg.	206 million
Tobacco mfg.	142 million
Textiles, apparel and leather	130 million
Grain and milling	65 million

Sales finance loans increased $324 million. Loans to retail and wholesale trade increased $272 million. There were minor increases in other lines, including construction and public utilities. The increase in loans for defense purposes was notably small—only $10 million—and loans to manufacturers of metal products actually decreased by $17 million.

I cite these figures to indicate that the loan increase at these banks was almost entirely related to peacetime activities, crop moving, agricultural commodity processing, retail and wholesale trade and consumer credit. While the breakdown of figures for smaller banks in the country would probably be somewhat different, the general pattern would doubtless be the same—a tremendous increase in bank credit to

Continued on page 86

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Continued from page 85

Our "Fluid" Defense Against Inflation

finance peacetime business at rising price levels.

Voluntary Credit Restraints

The inflation defense in the bank loan field has been largely one of urging voluntary restraint on the bankers of the country. The problem is difficult due to the large number of banks. The individual banker cannot be expected to see the national situation or the impact of his loans on the national money supply. I am sure that every bank loan is sound in the banker's eyes from the standpoint of collectability on the day when the loan is made, and yet there remains the hard fact that in the aggregate bank credit expansion has added to the money supply at a time when the effect on prices is particularly important. Specifically, what have the banking supervisory authorities done in the field of bank credit restraint? Here are the moves:

(a) Letters have been sent to every bank in the United States enlisting their aid in screening their loans and explaining to would-be borrowers why loans should be kept at a minimum. One such letter was sent out in August by all of the Federal agencies and the State Bank Supervisors jointly. In November, separate messages were sent by the Chairman of the Board of Governors, by the Federal Deposit Insurance Corporation and by the Comptroller of the Currency to banks under their supervision. The general tenor of these letters is indicated by the following sentence from the November Federal Reserve Board letter:

"Commercial banks can also do their part in bringing about restraint of credit by advising borrowers to avoid overstocking of inventories and to postpone unnecessary business expansion, and by discouraging various types of loans that do not make a definite contribution to the defense effort."

I was pleased to note that the Washington Bankers Association has taken the same stand. Here is a quotation from a letter issued on September 22 by that Association:

"The demands on our economy in the coming months will be extremely inflationary. Unless proper protective measures are adopted, both voluntarily and/or imposed by statute or regulation, the value of the dollar could be so reduced that our country would be a fertile field for foreign 'isms' and ideologies which we are aggressively battling."

Next week in Chicago the American Bankers Association is holding a National Credit Conference at which this problem of bank credit expansion and its restraints will be discussed in detail by national leaders.

(b) At the risk of repetition, I should point out that Regulations W and X strike at further increases in some of the most profitable types of loans made by banks. The banks have responded admirably to these regulations and are enforcing them without complaint. Indeed, they are wholeheartedly behind the purpose of the regulations. Listen to this quotation from a letter to Chairman McCabe from a mid-western banker who operates a large consumer loan department:

". . . we have a sizable installment loan and finance department so that your new regulations are going to affect us adversely as to outstandings and also as to income. However, in spite of this, we feel the new regulations are good for the country and we are writing you today to encourage you to maintain your stand. . . . To stop continuing inflation some of us are going to have to get hurt a little along the way, but unless we are farsighted enough to look beyond that small immediate hurt, we are not going to stop inflation. . . ."

(c) Discount rates have been raised from 1½% to 1¾% by all Federal Reserve Banks. While borrowing from the Federal Reserve Banks is not large under today's conditions, the increase in discount rates nevertheless served notice that the Federal Reserve Banks advised caution in further bank credit expansion.

(d) Short-term interest rates as reflected in the prices of short-term government securities have been allowed to rise by a fraction of 1%. This move has exerted steady pressure to discourage the sale of government securities by present holders for the purpose of using the funds in other ways. It has also made these short-term government securities somewhat more attractive as investments and to that extent has encouraged the diversion of funds out of the spending stream.

Question of Increased Reserve Requirements

The Board of Governors of the Federal Reserve System has not as yet used its remaining powers to increase the reserve requirements of member banks. Under the law, reserves against net demand deposits at country banks and Reserve City banks can be raised 2%. (From 12 to 14% and from 18 to 20%, respectively.) The Reserve City bank reserves against demand deposits can be raised from 22 to 26%. A 1% increase (from 5 to 6%) can be ordered against the deposits at all classes of banks. The full use of these powers would probably cause member banks to sell upwards of $2 billion of government securities through the open market to the Federal Reserve Banks in order to obtain the additional required reserves. Aside from decreasing the earnings of member banks, this move would decrease their liquidity to some extent since they would probably dispose of their shortest term, lowest rate securities. The move would be an automatic way of exerting some further restraint on loan expansion at member banks. Each bank, of course, would continue to make the decisions as to what loans it would make and what loans it would refuse.

I have discussed with you the pattern of the "fluid" defense against inflation, the weapons which have been used or may be used and the ways in which they have been used up to this time. For the present, the rapid advance in consumer credit has been halted. It is too early to say whether real estate credit restraints will stop the increase in that field. In bank credit expansion, the increase has continued right up through the latest week's figures although bankers expect that the peak for this movement is about at hand. They also expect a heavy liquidation during the winter months that will release credit for defense purposes. In other words, the emphasis should soon shift from the screening of new loans to concern for the prompt repayment of loans already made.

Thus the "fluid" defense is operating. The campaign is continuing and the battle is far from won. The objective, a strong currency with well maintained buying power is well worth the most earnest efforts of the entire banking industry.

Continued from page 2

The Security I Like Best

21½ is not indicative of its actual value. With a present annual dividend of $1.40 common stockholders received less than one-half the $2.88 earned for the year ending Oct. 31, 1950. . . . Earnings available for the common in the calendar year 1949 was $2.49 a share and for 1948 $2.30. This dividend is low on the earnings.

Without attempting to prognosticate the earnings on the common stock for 1951 it is reasonable to expect that something over $3 a share should be earned which would make the present price of the common and the present dividend abnormally low when compared with other utilities of similar caliber.

Anaconda Copper Company purchases about 27% of Montana Power Company's output. If the demand from this source should decline it would not susbtantially affect the earnings position of the company inasmuch as a minimum annual payment of $1,800,000 is covered by contract with Anaconda. This is more than enough to cover present annual bond interest requirements. The percentage of revenues from other sources has been consistently increasing and decreases the importance of Anaconda's business on the overall picture.

The comparative isolation of the territory covered by the company from congested industrial centers of the country holds possibilities for war plant construction in the area with greater protection against bombing and potential electric power and natural gas expansion for the company.

Montana Power Company common stock, listed on the New York Stock Exchange, has relative market stability, gives a satisfactory income and has ample earning power at its present price.

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(Special to The Financial Chronicle)

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Continued from page 10

An Economic Riddle Wrapped in An Enigma

the price-making process reduces the flexibility of business adjustments, which is the thing we need to promote and preserve to the greatest extent possible in the changing conditions of war preparedness to which individual business operations must be adapted.

Furthermore, controls over the price system involve adding an enormously costly bureaucratic system within the government and entail heavy costs of reporting, negotiating, and the like on business concerns. I think that Mr. Valentine would have earned the gratitude of his fellow citizens if he had been able to keep his Economic Stabilization Agency down to an advisory rather than an operative role.

This is doubtless made impossible by the fact that there is no apparent way to check the wage spiral except in conjunction with or after the imposition of price controls. Even so, it looks as though we may be trying to carry water in a sieve, since it appears that labor will insist on keeping its escalator clauses intact and farmers will not permit prices to be fixed below "parity."

Credit Controls

As for credit controls, the present circumstances give us an excellent opportunity to learn a new lesson in the theory and practice of central banking. We showed ourselves unwilling to continue consumer credit controls at a time when they would have served to check inflationary pressures before Korea. Now the Federal Reserve Board is being permitted and even -encouraged to use larger powers to contract liquid purchasing power which had been unduly stretched. Early evidence indicates that in the circumstances in which it was applied, this general type of control is quite powerful. Affected business is yelling that it is too powerful—because it lessens demand for their product. Well, that was the intention. If we are to prevent inflation and shift from civilian to military supply, this is one of the most—perhaps the most—manageable and effective means of carrying out the national economic policy. It has the great merit over price controls that it does not freeze market relationships but can be flexibly adapted to changing conditions.

We cannot simply plunge into a military commitment that makes us feel secure or that the military expert says would make us safe against any foreseeable contingency, and then let our economy and our financial system take the impact of that military program as best they may. National security rests on the dollar, the government bond, and the price index just as much as it does on the tank, the atom bomb, and the radar net.

Cuts Needed in Non-Military Spending

I am deeply disturbed that there seems to be so little real willingness to attack our serious problem at its actual base, the scale of expenditures that we assume. I do not believe we can double the $15 billion military appropriation, as was done before Congress recessed, and now add $18 billion in the "lame duck" session and make no real cuts at other places, without putting the 82nd Congress in an impossible position and the country in real jeopardy. This is the danger of a cracking of the financial structure and impairment of the monetary unit on which the fundamental security of the economy rests.

Now I am ready to admit that we might conceivably get by without a grand smash. I am enough of a social scientist not to be dogmatic on a point like this. We are dealing with a matter of human behavior, not a merely mechanical process, and it is impossible to say that 150-odd million people absolutely will act in one particular way and not in any other way. I have already pointed out that individuals and groups try to exempt themselves from the inflationary process—that is, the pinch of higher prices. The labor unions do it by raising wages, and the employers do it by raising prices. But labor complains that its new wages are "paid with wooden nickels," and so they must have another raise, whereupon the manufacturers and merchant say they must have another price raise because their costs have gone up. Thus, there is no end to the inflationary spiral except sheer exhaustion. The 1930's should have taught us how desperately hard it is to get things going again after a real smash-up.

But those who think "we can manage inflation this time" point out that there is a great deal more stretch in the system that we have now built up with the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Securities Exchange Commission, and nonconvertibility of paper into gold. They say: "We seem to be doing all right. What is there to worry about?" To this I answer: In the mixed psychological and mechanical process of our money-credit-market system, the breaking point comes when there is loss of confidence in the monetary unit in which values are registered and property is held or exchanged. A distinguished American not many years ago said: 'The only thing we have to fear is fear itself." That aphorism might be applied to the present situation by saying: "The greatest thing we have to fear in the economy of the United States is a spreading fear as to the future of the dollar."

That distrust is already upon us in some degree. It is not too late to cure it by sound public and private policy. But those policies have not been clearly enunciated. The signs of fear are daily accumulating as people ask each other, "What is the best hedge against inflation?" Hedging against inflation is a flight from the dollar. In recent months we have seen a growing procession of economic refugees fleeing from dollars into business inventories and consumer durables. Nonfarmers have been shopping for farm land, and investors have been bidding for equities that presumably will go up with the inflation tide. Recently we have become aware that the nimble boys who even look abroad for inflation hedges are moving some of their capital out of the United States to havens in Europe, South America, and other places. Those who are ready to take a chance on "containing" inflation may well ponder what happens when a stampede once gets started.

Continued from page 12

What New York Security Dealers Have Accomplished

association since our organization was founded. To them we owe a deep sense of gratitude. During the last 25 years, the over-the-counter industry has made substantial progress in furthering our business, and in the protection of investors. But there is still much work to be done—quotations, disclosure of information by corporations whose securities are held by investors, and a campaign to acquaint the public with the over-the-counter market and its workings, are among the items that require attention.

The New York Security Dealers Association pioneered in the field of quotations, and feels qualified to treat with this subject. For years we have advocated better quotations, broader publicity of them and wide dissemination of them to the public. There is no reason why an owner of an over-the-counter issue should not be able readily to obtain the market value of his holdings. The industry should seek the cooperation of the newspapers to publish quotations on more of the active over-the-counter issues.

I am aware of the whitespace problem of the newspapers. But I am sure the financial editors are aware of the vast interest that exists in over-the-counter securities that are held by many thousands of their readers. In addition to more published quotations, the industry must decide on a means to make quotations readily available, in booklet or other form for investors throughout the nation, through the medium of banks, libraries, and perhaps post offices.

A great deal of interest has been shown regarding the question of disclosure of information by corporations whose securities are held by investors and which are not subject to the reporting and proxy provisions of the Securities Exchange Act of 1934. It is difficult to understand why anyone should oppose the disclosure of information on the affairs of a business to a part owner of that business. When an investor is informed he becomes confident and is inclined to make further investments in established and new business enterprises. This actually aids the whole economy through the expansion of business, and results in more jobs and buying power.

It is for these reasons and the benefits we believe will flow to our business, that we joined with NASD and supported in principle, the legislation introduced by Senator Frear early this year. However, in order further to protect the public interest, we urge Senator Frear to amend his proposal so that the unsound practice of unlisted trading on exchanges now permitted under the 1934 Act, be eliminated.

It is now generally recognized that information regarding a security is of itself not all important, but of equal, if not of greater importance, is the marketability of a security, if the best interests of the investor are to be protected.

In view of the great importance of this measure we consider ourselves fortunate indeed, to have its sponsor as our speaker this evening. [**Editor's Note:** Text of Senator Frear's address is on page 13.]

Continued from page 12

Synthetic Liquid Fuel —A Coming Industry

the area of interfuel competition, either by introducing new devices for utilization or by increasing knowledge of converting the various fuels into forms usable in present-day equipment. An example of the developing technology of the former type is the gas-turbine locomotive burning powdered coal. The synthetic fuels illustrate the latter. The only significant uses in which substitution is not now feasible are motor fuel for motor transportation and aircraft, including gasoline, kerosene, and certain distillates, metallurgical coals for the manufacture of coke for blast furnaces, and natural gas for the manufacture of carbon black and glass. In future, if technology progresses far enough to overcome certain cost factors, and if this country is willing to bear the cost of lost energy in making the transformations, these uses may become vulnerable to substitutes, directly or indirectly. For example, if liquid fuels are derived synthetically from coal on an economic basis, coal could compete with oil as a source of automotive fuel.

If we had boundless supplies of all fuels, these facts would be unimportant. However, our reserves of petroleum are relatively limited. In recent years there have been annual additions to proved reserves, and a record number of explorations and discoveries since 1946 has improved the reserve position relative to production rates, but we can hardly assume that such successes will continue year after year, even with greatly improved exploration methods.

As the midway point of the 20th century, this year marks the beginning of a significant decade—a decade in which authorities in both the petroleum industry and government have indicated that domestic petroleum production probably will pass its peak and may begin to decline. Moreover, they anticipate that this decade will witness the birth and initial development of a new basic industry engaged in producing synthetic liquid fuels, first from natural gas, then from oil shale and coal.

Eugene Ayres, director of the chemistry division in Gulf Research and Development Co., in an article entitled "The Fuel Problem," published in the December, 1949, issue of "Scientific American," summarized the fuel problem and indicated what we may expect in the near future, as follows:

"The synthesis of liquid and gaseous fuels is important because (1) the world, particularly the United States, is committing itself irrevocably to a liquid and gaseous fuel economy, and (2) production of petroleum and natural gas is sure, sooner or later, to decline. We expect to need more and more, but we shall finally obtain less and less. The consensus of experts in the petroleum industry, as summarized by a Congressional Committee in 1947, is that petroleum production in the United States will reach its peak between 1955 and 1960, and that by 1967 production will be no more than a billion barrels a year—about half of our present rate of consumption."

Our Energy Reserves

At this point I want to interpose a word of caution with regard to comparisons of reserves. Among our reserves of energy, only coal and water may be measured accurately enough to provide satisfactory estimates of the total available. In contrast to the underground occurrence of solid coal in layers in the succession of sedimentary rocks and to water power which can be estimated from surface data, liquid petroleum and natural gas are mobile substances that move through minute openings in the rocks and accumulate only where geologic conditions provide traps that prevent further migration. Various conditions create such traps, and it is impossible to predict either the number in the widespread, thick sequences of sedimentary rocks or the total amount of recoverable oil or gas that they contain. Until accumulations of oil or gas are discovered by drilled wells, their existence and potential production are unknown, and they cannot be classed as recoverable reserves. The quantities of oil and gas that ultimately will be available from domestic fields will unquestionably prove to be far greater than the present proved reserves.

However, barring unexpected developments in atomic or solar energy, the anticipated gap widening between domestic demand and supply will have to be met by synthetic liquid fuels and imports. It is obvious that the security of our liquid-fuels position will be greatly enhanced when the supply is based in part on solid fuels, such as coal and oil shale, which compose more than 95% of our proved fuel reserves.

The first synthetic gasoline to enter the market will come from natural gas, since a commercial plant for converting natural gas to liquid fuels already has been built. However, reserves of natural gas, like petroleum, are limited. Synthetic fuel processes also can play an important part in meeting requirements for strategic chemicals. Current shortages and increasing requirements for benzene, phenol, toluene, and certain other chemicals could accelerate the schedule for constructing the initial coal-hydrogenation plants, in view of the fact that these chemicals would be produced from such plants in important quantities.

Several months ago the Bureau of Mines undertook a study to determine the effect of a synthetic fuels plant in relieving shortages of certain chemicals, particularly benzene and phenol. These are important raw materials for the manufacture of many other essential products. For example, benzene is used to make synthetic rubber, plastics, and nylon.

Coal-Hydrogenation

A coal-hydrogenation plant could be operated in such a manner that the yields of benzene, toluene, and xylenes would be increased by about 25%, but this would result in a proportionate reduction in the yield of gasoline. Many other products are obtainable from coal, but there is no present demand for them because they have never been produced in quantity. Many of these can be recovered by minor process changes.

Shale oil likewise contains significant amounts of aromatic chemicals now in short supply. These include tar acids—phenol, cresols, and xylenols—together with tar bases, present as homologues of pyridine and quinoline. In a laboratory unit, the Bureau has demonstrated that a highly aromatic feed stock can be produced by retorting pulverized oil shale with radiant heat, a process completed in a fraction of a second. The product, a gasoline-boiling-range material with octane number near 100 may also be used as a source of aromatics. If radiant retorting can be proved commercially feasible in large-scale equipment, the yields of benzene and toluene available from oil shale by this process will be very impressive.

The patterns of fuel supply are constantly affected by technologic progress, changes in the industrial economy, competition among the fuel-supplying industries and aggressive marketing, the supply picture, and consumer preference. The relatively rapid shift from the use of fuel gas manufactured from coal to natural gas is an example. In 1929, 1.5 million tons of bituminous coal was converted to fuel gas while 1.2 trillion cubic feet of natural gas was used; in 1947, only 0.9 million tons of coal (or 25% less coal (or 25% less coal) was converted to gas, and 2.9 trillion cubic feet (or more than 250% more) of natural gas was consumed.

The full facts concerning the end uses of the various fuels have never been thoroughly explored. What, for example, happens to bituminous coal after it is mined? We know that some never leaves the mine tipple but is used right at the mine; some is exported; some is made into briquets; another portion goes to utility plants; a small quantity goes to petroleum processing; some is charged in coke ovens to make fuel gas; and the remainder eventually is consumed by transportation facilities, by various manufacturing industries, and for heating commercial establishments and homes. But how much is used in each of these categories? To what extent is one type of fuel replacing another in each class of use?

The Bureau of Mines has undertaken to find out just what is happening to our fuel-consuming habits. We are now preparing a statistical "run-down" for 1929, 1939, and 1947, which happen to be the years in which a census of manufactures was taken. We propose to follow this study with others, so that eventually we will have an accurate picture of the shifting pattern of fuel supply and the factors that seem to bring about these changes. Our country's industrial prowess and growth, like those of other highly developed civilizations, are based in large part on our fortunate abundance of energy resources. It is important for our continuing prosperity and national strength to know where and how our various fuels are being utilized.

Joins Faroll Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Eustach Bregy is now associated with Faroll & Company, 209 South La Salle Street, members of the New York and Midwest Stock Exchanges. He was formerly with C. L. Schmidt & Co., Inc.

Join Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Emory H. Wilder is now associated with Waddell & Reed, Inc., 332 South Michigan Avenue. He was formerly with Cruttenden & Co.

Joins Bache Co. Staff

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Irving L. Wallens has joined the staff of Bache & Co., 21 Congress Street. He was formerly with Hornblower & Weeks.

With First Mutual

(Special to THE FINANCIAL CHRONICLE)

DETROIT, Mich.—Wirt Lee is with First Mutual Company, 600 Woodward Avenue.

With Goodbody & Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, Mich. — Walter N. Jackson has become affiliated with Goodbody & Co., Penobscot Building.

Continued from page 4

Let's Wash Up Our Bankrupt Foreign Policy

strength. Italy is hopelessly ineffective and Greece can hardly police her own small territory. Where is there in all Europe any buffer against a massed Russian onslaught? Worse than this, where is there any determination to create such a buffer?

Oil But No Friends

In the Middle East we have oil but no friends. Iran, Pakistan, even Egypt, seek neither our protection nor our influence. In Asia, China whose friendship with us seemed deep-seated and enduring, is now massed against us with men, powerful armies and new vengeful hatreds. Indonesia, Malay, Indo-China, are in revolt or heavy with discontent at the influences we represent. India is showing signs of succumbing to influences other than ours, more indigenous and more palatable to her desires. In Korea we are spending thousands of American lives to accomplish some unknown objective. Assume we stop the Reds somewhere across the belt of that peninsula, are we to continue fighting there indefinitely?

On the other side of the Iron Curtain are massed manpower and military strength of a type that the world has never seen. Divisions which total in the many hundreds and which we know are well equipped and have the capacity to fight, can be thrown into battle anywhere on that great land mass that stretches from the Atlantic to the Pacific. They are backed by planes of high quality and great quantity. Russia's navy includes a powerful fleet of submarines, and in all probability she too has the atomic bomb.

To engage these vast armies on the European or the Asian continent is foolhardy, but that is the direction towards which our policy has been tending.

That policy is suicidal. It has made us no foul weather friends. It has kept our armament scattered over the globe. It has picked one battlefield and threatens to pick others impossibly removed from our sources of supply. It has not contained Communism. By our methods of opposition it has solidified Communism, where otherwise Communism might have bred within itself internal dissensions. Our policy today is politically and morally a bankrupt policy.

I can see no alternative other than having the courage to wash up this policy and start with the fundamentals I urged more than five years ago. It is absurd to believe that the United Nations can lead us out of this situation. The veto power alone makes it a hopeless instrumentality for world peace. The unwillingness of half the world to want world peace makes impossible effective organization to impose any such peace. In short, our chief source of reliance must be ourselves and we cannot sacrifice ourselves to save those who do not seem to wish to save themselves.

Realism in Asia

A first step in the pursuit of this policy is to get out of Korea—indeed, to get out of every point in Asia which we do not plan realistically to hold in our defense. Such a policy means that in the Pacific we will pick our own battlegrounds if we are forced to fight and not have them determined by political and ideological considerations that have no relationship to our own defense.

The next step in pursuit of this policy is to apply the same principle to Europe. Today it is idle to talk of being able to hold the line of the Elbe or the line of the Rhine. Why should we waste valuable resources in making such an attempt? If the weakened European nations wish to hold that line and demonstrate a determination to do so, it may be that we can afford them some help. But to pour arms and men into a Quixotic military adventure makes no sense whatever. What have we gained by staying in Berlin? Everyone knows we can be pushed out the moment the Russians choose to push us out. Isn't it better to get out now and use the resources, that would otherwise be sacrificed, at a point that counts?

The billions that we have squandered on these enterprises could have been far more effectively used in this hemisphere and on the seas that surround it. Had we the defenses in Iceland today that one-hundredth of the money spent in Berlin could have built, we would have purchased safety with our money rather than added danger. We need defenses in this hemisphere, in Canada, in the Caribbean and in Latin America. After all, these are our neighbors whose security is inevitably tied up with our own. We have no reason to believe that cooperation on their part will not be forthcoming and we can, and should insist upon it.

Cannot Universally Contain Communism

People wil say, however, that this policy will not contain Communism. Will our present policy do so? Can we possibly contain Communist Russia, if she chooses to march, by a far flung battle line in the middle of Europe? The truth is that our only real hope is to keep Russia, if she chooses to march, on the other side of the Atlantic and make Communism much too costly for her to try to cross the seas. It may be that Europe for a decade or a generation or more will turn Communistic. But in doing so, it may break of itself as a unified force. Communism still has to prove itself to its peoples as a government that will achieve for them a better way of living. The more people that it will have to govern, the more necessary it becomes for those who govern to justify themselves to those being governed. The more peoples that are under its yoke, the greater are the possibilities of revolt. Moreover, it seems certain that Communism spread over Europe will not rest content with being governed by a handful of men in the Kremlin. French or Italian Communists will soon develop splinter organizations that will destroy the singleness that today characterizes Russian Communism. Tito in Yugoslavia is already demonstrating this fact. Mao in China is not likely to take his orders too long from Stalin, especially when the only non-Asiatics left upon Asiatic soil to fight are the Russians.

Not Appeasement

This policy, will, of course, be criticized as appeasement. No word is more mistakenly used. Is it appeasement to withdraw from unwise commitments, to arm yourself to the teeth and to make clear just exactly how and for what you will fight? If it is wise in our interest not to make commitments that endanger our security, and this is appeasement, then I am for appeasement. I can recall only too well the precious time bought by Chamberlain at Munich. I applauded that purchase then; I would applaud it today. Today, however, while we have avoided a Munich we are coming perilously close to another Dunkirk. Personally, I should choose to escape the latter.

Casualties and Relationship to UN

Finally, people will say this policy is turning our back on the United Nations. To this there are two answers. Firstly, we cannot bear substantially the whole burden of the United Nations. In Korea, we have nine times as many tropos in the field as all the United Nations put together. We have suffered 90 times the number of casualties that all the other United Nations have suffered, excluding only the South Koreans. And note the billions that we have advanced these nations as against the help they are giving us in Korea. A recent compilation sets up a very impressive balance sheet.

UNITED KINGDOM

Aid received and allocated:

$5 billion, 861 million since the war, and $30 billion, 387 million during the war, plus $2 billion in 1951.

Aid given in Korea:

6,000 ground troops in Korea and Korean waters, 1 aircraft carrier, 4 cruisers, 1 aircraft maintenance ship, 7 destroyers and 8 frigates.

FRANCE

Aid received and allocated:

$2 billion, 581 million during war, $3 billion, 717 million since war, plus $3 billion, 170 million, military aid requested in 1951.

Aid given in Korea:

Infantry battalion of 1,000 men, 1 patrol gun boat and medical supplies.

NETHERLANDS

Aid received and allocated:

$145 million during war and $1 billion, 21 million since war.

Aid given in Korea:

630 infantry and 1 destroyer.

BELGIUM

Aid received and allocated:

68 million during war and $599 million since 1945.

Aid given in Korea:

Infantry battalion of 1,000 men yet to arrive, air transport and 400 tons of sugar.

TURKEY

Aid received and allocated:

$35 million during war and $259 million since 1945.

Aid given in Korea:

1 infantry combat force of 5,000 men and serums and vaccines.

CANADA

Aid Received and Allocated:

$6½ million credit.

Aid Given in Korea:

350 men now fighting in Korea, 1,000 more en route and 10,000 in training for service, 1 air transport squadron of 12 planes and 3 destroyers.

GREECE

Aid Received and Allocated:

$79 million during war, $1 billion, 138 million since 1945.

Aid Given in Korea:

700 to 800 men, arriving this week and 6 planes.

AUSTRALIA

Aid Received and Allocated:

$17 million, chiefly in credits, evenly divided in war and postwar.

Aid Given in Korea:

1,000 men, plus reinforcements, 1 RAAF squadron of 40 fighter planes, 2 destroyers and 1 frigate, medical supplies, food.

SWEDEN

Aid Received and Allocated:

$5 million during war and $57 million since 1945, of which $40 million was in grants.

Aid Given in Korea:

1 field hospital unit.

NORWAY

Aid Received and Allocated:

$31 million during war and $193 million since 1945.

Aid Given in Korea:

No fighting men. Some merchant ships.

NEW ZEALAND

Aid Received and Allocated:

No credits listed.

Aid Given in Korea:

1 combat unit, 2 frigates and 200 to 300 tons of dried peas.

DENMARK

Aid Received and Allocated:

$176 million since 1945.

Aid Given in Korea:

1 hospital ship, medical supplies and 500 tons of sugar.

ETHIOPIA

Aid Received and Allocated:

$1 million.

Aid Given in Korea:

$100,000 and offered 1,000 men which have yet to be accepted.

ICELAND

Aid Received and Allocated:

$9 million since 1945 and $1 million during war.

Aid Given in Korea:

125 tons cod liver oil.

INDIA

Aid Received and Allocated:

$163 million during war and $45 million since.

Aid Given in Korea:

No troops, 1 field ambulance unit, 400,000 jute bags under negotiation.

This is a costly and staggering

Continued on page 90

Continued from page 89

Let's Wash Up Our Bankrupt Foreign Policy

extravaganza in which we have wasted too much of our substance.

UN No Peace Vehicle

Secondly, we must recognize that the United Nations is not at present a vehicle to enforce peace. If half of the world does not wish it to operate in this fashion, as is true of Russia and China, it is idle to pretend that it can operate in that fashion. The United Nations still has a purpose for voluntary organization and as a forum in which to air international issues. Looking at the United Nations in that role, the admission of Red China or any nation presents wholly different issues than are presented if we look upon the United Nations as a type of governing body, with governing powers. But half of this world will never submit to dictation by the other half. The two can only agree to live next to each other because for one to absorb the other becomes too costly.

An attitude of realism such as this is, I submit, in accord with our historic traditions. We have never wanted a part of other peoples' scrapes. Today we have them and just why, nobody quite seems to know. What business is it of ours to support French colonial policy in Indo-China or to achieve Mr. Syngman Rhee's concepts of democracy in Korea? Shall we now send the marines into the mountains of Tibet to keep the Dalai Lama on his throne? We can do well to mind our business and interfere only where somebody threatens our business and our homes.

The policy I suggest, moreover gives us a chance economically to keep our heads above water. For years, I have argued the necessity for not burdening ourselves with unnecessary debts. There is no surer way to destroy the basis of American enterprise than to destroy the initiative of the men who make it. We will, of course, continue to have to pay and to pay heavily for our defense. But what have we now in hand for the billions that we have spent abroad? We can no longer afford this luxury; we dare not afford its consequences to our own security. Those who recall 1932 know too easily the dangers that can arise from within, when our own economic system fails to function. If we weaken it with lavish spending either on foreign nations or in foreign wars, we run the danger of precipitating another 1932 and of destroying the very system which we are trying to save.

An Atlas, whose back is bowed and whose hands are busy holding up the world, has no arms to lift to deal with his own defense. Increase his burdens and you will crush him, or attack him from behind and he cannot turn. This is our present posture. It strangles our might. The suggestions I make would unleash our strength. They would, I am sure, give considerable pause to the strategists and planners of the Kremlin. They would—and I count this most—conserve American lives for American ends, not waste them in the freezing hills of Korea or on the battle-scarred plains of Western Germany.

Continued from page 5

Observations . . .

By A. WILFRED MAY

Short Sales

Where a short position is closed out by a purchase in the market, the resultant gain or loss is short-term; where the short position is closed out by delivering stock out of a long position held by over six months, the resulting gain or loss in the short account is long-term.

Until this year's legislation stopping the practice, some speculators accomplished the conversion of a short-term gain into a long-term gain by selling short against the box before the long stock was held for six months. At the end of the six month period they delivered long stock to close out the short positions, unless the market price was then higher than the short sale price, in which event they sold long stock in the open market and bought stock in the open market to close the short position. But this is now prohibited.

Philanthropic Gifts

Gifts, of course, are constantly becoming more important in connection with estate planning (as discussed in our column of Dec. 7). The basis for capital gains or loss taxation is usually the donor's cost. In gifts to charitable institutions, it is advantageous to make the gift in stock on which a capital gain has accrued instead of cash; as the amount of the gift is the fair market value of the security, without any tax on the capital gain. Adjusted gross income for the purpose of computing the 15% limitation on your charitable gifts includes all realized capital gains irrespective of whether the tax is computed on the alternative basis.

Under exceptional circumstances money can actually be made on a gift—in cases of very old people in high brackets with low lost securities having big appreciation, and where the gift is made in trust with a reservation of life income.

Treatment of Dividends

Dividends are taxable only to the extent the paying corporation has either accumulated earnings at the beginning of the year or earnings during the year of payment. If neither are present, the dividend is not taxable but represents a return of cost. After the cost has been fully recovered in this manner, dividends are taxable as capital gains. Pennroad, Electric Bond and Share, and United Corporation are examples of companies of this type.

Dividend arrears, paid out of earnings, are taxable irrespective of amount. Generally, however, such arrears paid upon retirement of preferred stock represent additional proceeds entering into gain or loss calculations rather than taxable dividends.

Securities may be sold immediately before "ex" date and repurchased on "ex" date to avoid receipt of taxable dividends. Where, however, stock has been held for less than six months and the holder has a profit, he may not desire to take a short-term capital gain.

A stock dividend may or may not be taxable. The safest procedure is to act according to information from the company.

Mutual Fund Provisions

Income received and paid out by investment companies (mutual funds) are accorded special treatment, in order to prevent double taxation of the income which passes through the fund. Funds which establish themselves as a "regulated investment company" must distribute their net investment income and their capital gains each year; in which event the company pays no tax on the amount so distributed—the distributions being taxable to the shareholder in the same way as if he held the securities directly. The fund pays a flat 25% tax on any long-term capital gains which are not distributed.*

In the case of bonds selling at a premium, the premium is amortizable between the date of acquisition and the first call date. In the case of convertible bonds, the law has recently been changed to disallow the amortization of the premium paid for the conversion right.

* * *

So much for the miscellaneous factual items, which may be of some interest and help. **But far more valuable to the investor is our constructive advice to avoid the temptation of permitting tax considerations to interfere with normal investment policy. Such overemphasis on tax avoidance may occur not only in the timing of overall portfolio gains and losses, but also in the easily calculable switching between individual issues.**

*For fuller explanation cf. "Investment Companies" by Arthur Wiesenberger, 1950, N. Y.

Curb Floor Clerks Elect New Officers

August Fischer, telephone order clerk for Tucker, Anthony & Co., was reelected President of the New York Curb Exchange Floor Clerks Association at the association's annual elections held recently.

William Mirabella, Francis I. duPont & Co., was elected to the Vice-Presidency, with Howard Schaal, Clark, Dodge & Co., becoming Treasurer. William Menagh, Laidlaw & Co., was elected Financial Secretary; Gerard Anglim, M. J. Heaney & Co., Recording Secretary, and James Cooper, Francis I. duPont & Co., Corresponding Secretary. Walter Palmer, L. A. Mathey & Co., is the new Sergeant-at-Arms, to be assisted by George Layng, Shearson, Hammill & Co. George Hoffman, Carl M. Loeb, Rhoades & Co., was elected as three-year Governor.

For one-year Governors, the association elected Wallace Weil, Michael Petruzzi and Nelson Goetz of Andrews, Posner & Rothschild, Reynolds & Co. and Reich & Co., respectively.

IBA GROUP CHAIRMEN

EASTERN PENNSYLVANIA

Gordon Crouter
De Haven & Townsend, Crouter & Bodine, Philadelphia

SOUTHEASTERN

W. Peyton May
Investment Corporation of Norfolk, Norfolk, Va.

SOUTHERN

Ralph Owen
Equitable Securities Corporation, Nashville

Continued from page 15

Measures of Reasonableness Of Manufacturing Profits

mission and Securities Exchange Commission reports the ratio quarterly.

The merit of the ratio is that it is both a qualitative and a quantitave measure resulting from the movement of two factors, i.e., earnings as a per cent of sales and turnover. The average ratio of net profit to net worth of leading manufacturing corporations over the four year period 1946 through 1949, as reported by the National City Bank, was 15.5%. Of greater significance than the average is the wide deviation between industries; in the four year period this variation ranged from a low of 2.2% for aircraft to a high of 27.4% for the distilling industry. Such wide divergence, under competitive conditions, evidences the existence of important profit determinates other than the magnitude of net worth.

Recently, businessmen have expressed grave doubts as to the reliability of the ratio as a measure of a fair return. The ratio fails as a test of reasonableness because important determinates are not taken into consideration and because of lack of comparability of the two parts of the ratio in a period of changing price level. Among the important factors overlooked are the nature and extent of risk assumed and the efficiency attained. Obviously, one who risks capital in a speculative undertaking can reasonably hope for a return greater than could be expected from a safer investment. This is constantly evidenced by the wide difference in yields prevailing on the stock market. It is equally true that one who efficiently employs his capital is entitled to a higher rate of return than obtained by the less efficient—otherwise, there would be no incentive to reduce costs. Further, the current comparison of dollar profits with dollar net worth is misleading because of the change, over a period of time, in the value of the dollar. This change in the yardstick effects the ratio in two ways. First, annual profits are shown in approximately current dollars while net worth is, in part, determined by the cost of assets acquired over a longer period of time in dollars of a substantially higher value than current dollars. Second, the profit portion of the ratio reflects a residue determined, in part, by expenses such as depreciation based on historic costs rather than current values. The net effect is that overstated profits are compared to understated net worth. As a sole measure of a fair return for tax purposes the ratio of profits to net worth inevitably favors the overcapitalized company and is an invitation to extravagance.

Several methods have been suggested that use a base broader than net worth. For example, the excess profits tax imposed during World War II provided for one measure that determined the excess subject to tax by the allowance of a credit based on net worth plus 50% of borrowed capital. Admiral Ben Moreell, President, Jones & Laughlin Steel Corporation, in a recent article in "The Commercial and Financial Chronicle,"[1] made use of three measures, one of which compared net income to gross fixed assets plus inventory and receivables. The E. I. duPont deNemours & Company calculates return on investment on the gross value of plant and working capital.[2] While enlarging the base compensates for differences in the form of the capital structure and provides a clearer portrayal of the profitableness of assets employed, it fails to correct the defects previously mentioned.

The Ratio of Profits to Sales

Lately, business groups have tended to place considerable reliance on the ratio of profits to sales. M. E. Coyle, Executive Vice-President General Motors, in testifying before the Subcommittee on Profits in 1948 said: "Our margin of profit—the return, including income from investments, on each dollar of sales — was 11.5 cents in the 1936-41 period. For the 12 months ended Sept. 30, 1948, this return averaged 8.75 cents." The 1948 annual report of the United States Steel Corporation includes the following statement: "Although return on sales for 1949 was greater than for 1948, it was far below the 11% average return received in peacetime years prior to 1941 when the rate of operations were at the approximate level prevailing in 1949." The margin on sales of leading manufacturing corporations in 1949, as reported by the National City Bank, was 6.8% as compared to 7.5% in 1948. The variation between industries was great, ranging from a low of 0.5% for meat packing to 15.8% for the cement industry. Here, too, deviation within industries was wide. Thus, 23 manufacturers of automobiles, trucks, and buses realized, as a group 8.4% on sales in 1949; a majority, however, operated on a margin lower than the average and 10 reported losses.[3]

The primary objective of management is to realize maximal dollar profits not maximal percentages. The ratio of profits to sales is a qualitative measure of sales but fails as a measure of profit in that it ignores turnover. It is generally recognized that under conditions of free competition, concerns with a relatively high turnover, such as meat packers, may operate profitably on a relatively low sales margin. Further, the sales margin is defective as a measure of reasonableness because it ignores such factors as the degree of integration and efficiency. For example, two manufacturers may sell an identical product; one buys all parts and assembles them, the other manufactures as well as assembles the parts. On a competitive market the selling price would be identical but, other things being equal, the fully integrated manufacturer could reasonably expect a higher profit margin than could the assembler. The costs of the final seller include the profits of subcontractors and suppliers. In 1949 over 50% of the amount General Motors received from sales went to suppliers for materials, supplies, services, etc.; this means that General Motors's costs included some of the profits of its over 12,000 suppliers. The extent of integration varies greatly between and within industries, and the sales margin normally reflects the variation.

A more fundamental objection to the use of margin on sales as a sole test of reasonableness is that it ignores one of the important functions of profit. The hope of profit encourages efficiency which in turn makes price reduction posisble. The lowering of price may lead to an increase in aggregate profit accompanied either by a lower or a higher margin on sales. For simplicity consider two unrealistic examples. First, assume that all costs are variable with production, amount to 50% of selling price, and that a 25% reduction of sales price would result in the sale of three times as many units—the percentage of profit to sales would decline one-third but the dollar profit would increase 50%. Next, assume the same conditions except that all costs are fixed—both the dollar profit and the sales margin would increase. In the first case, the increased profit is due to increased volume; in the second, the profit increase is due to reduced unit costs and increased volume. The ratio of fixed costs to total costs varies greatly between enterprises, and as the ratio increases profits become more sensitive to volume change. General Motors, in its 1949 annual report, explains the increase in its sales margin from 9.4% in 1948 ot 11.5% in 1949 in this manner. The high profits before renegotiation, of many concerns during World War II was largely due to the many-fold expansion in sales. Conversely, a decline in volume results in a proportionately larger decline in profits. In 1948 the reports of 335 manufacturing corporations showing reduced sales as compared to 1947, indicated that a 14% decline in sales resulted in a 47% decline in profit.[4]

Direct Renegotiation as War-Profit Control

Numerous other measures have been suggested but a sufficient number have been examined to show the difficulty of attempting to determine reasonableness by a simple formula. Recognizing this difficulty, the Renegotiation Act of 1943 provided that numerous factors should be considered, including: efficiency, reasonableness of costs and profits, amount and source of capital, extent and nature of risks, contribution to the war effort, and character of the business. In the application of the statutory factors great reliance was necessarily placed on the business judgment of the renegotiation staffs and boards, and contractors were given every opportunity to present all relevant facts. In general, the profit permitted on war work was based on an allowance for capital employed, a reward for management applied to materials, and a reward for management applied to value added by the contractor. The interest rate on capital employed was determined after consideration of risks assumed; the reward for material management varied with factors such as difficulties of acquisition and economies in use; the reward for management as applied to added value was based on factors such as the extent of integration, complexity of operations, and efficiency. The whole approach was based on the desire to eliminate excessive war profits with as little interference with the profit incentive as possible. Renegotiation reports and the summaries thereof included various ratios, such as return on net worth and margin on sales, but these ratios were resultants rather than determinates of the conclusions reached. The profit allowed, like wages and other income, was then subject to prevailing taxes.

Unfortunately we are again faced with the necessity of diverting a substantial part of our productive effort to defense needs. While profiteering from the national emergency cannot be condoned, care must be taken lest we destroy what we are defending. An intelligently administered renegotiation law directed solely to the control of war profits will be less destructive of the profit incentive than a general ceiling on all profits. The problem remains of meeting the cost of the enlarged defense requirements. All income, including profits, must be taxed at higher rates to meet this need; however, high profits must be thought of as a source of additional taxes rather than as the reason for them.

1 The "Commercial & Financial Chronicle," Oct. 19, 1950.

2 American Management Association, Financial Management Series No. 94.

3 National City Bank's Monthly Letter, May 1950.

4 National City Bank's Monthly Letter, April 1949.

Joins Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

STUART, Neb. — Bernard C. Engler is associated with Waddell & Reed, Inc., of Kansas City.

Continued from page 14

The Electric Power Outlook

produced and sold in terms of kilowatt-hours.

Fear of Power Shortage

Certain of our government bureaus have been among those claiming that as we crank up our defense program and bring it to speed, we are going to have a serious power shortage unless something drastic is done to prevent it. Spokesmen for the private utilities say this isn't so. In government parlance, that "something drastic" usually means more public power projects. You might rightly conclude that the gentlemen on both sides of this question are interested parties. Perhaps the electrical manufacturer is also an interested party, but with this difference—he is the fellow who has to make the machines, regardless of who operates them, and he is therefore interested primarily in getting the facts. If his facts and his surveys and his estimates are wrong, he is likely to go out of business. It is the judgment of the manufacturer that I am offering you, therefore. Here is that considered judgment; let me give you the conclusions first, and then go back and pick up the reasons:

We believe the electric utility industry has done an excellent job of forecasting, planning and preparing to take care of the country's power requirements. The electrical manufacturing industry has also forecast and planned very carefully; it has provided the facilities and it has produced the power supply equipment needed. There is today enough power to meet present needs with a safe reserve margin. There will continue to be enough power to meet anticipated needs if the equipment—now on order and planned by the electric utility industry is built and installed as scheduled, despite a shift to a partial war economy. There will be, in our judgment, no power shortage *unless* one or more of the following things happens:

(1) If major war production projects, such as aluminum plants or special new bomb projects, are heedlessly located in sections of the country where power can't be made available to them.

(2) If the present manufacturing facilities for utility power supply equipment are diverted to other purposes, thus delaying production schedules of equipment already on order.

(3) If the materials necessary to producing this equipment are not made available as a vital part of the overall defense program.

Defense Expenditures of $46 Billion in 1952

What is our basis for this thinking? First off, let me say that we must believe this, in the General Electric Company, because all of our production planning and budgeting are based on these figures. We estimate that all defense expenditures will increase from the $12 billion of 1949 to about $46 billion in 1952, dropping back to about $41 billion in 1953. We are assuming full employment, capacity operation of all industry, and continuing industrial expansion through 1953. We have factored in all the plans and commitments for war production that are known, plus a heavy production of civilian goods. We are assuming some lengthening of the work week. In estimating power requirements we are here considering what practically amounts to a wartime level of industrial activity.

Increased Power Load Expected

On the basis outlined here we find there is indicated for 1953 a *power load*, or total demand, of 416,000,000,000 kilowatt-hours. This is 43% higher than in 1949. We estimate the *peak load*, or the largest demand that will ever be made for electricity at a given time, to be 77,400,000 kilowatts in 1953, or 37% higher than in 1949. Incidentally, on a comparable basis, these figures are within 1% of the figures recently published by the Edison Electric Institute, although we arrived at them independently. These are the dimensions of the demand that should be made upon us.

With the power-generating equipment that has already been scheduled by the electrical manufacturing industry through the first half of 1953, and assuming that the suppliers of power are permitted to install the additional capacity they have planned for the last half of that year, the nation will have a margin of reserve generating capacity 20% above the estimated load peak in 1953. I think you will find this fact important: in order to wipe out this margin of reserve, we would have to see a growth of the electrical load through 1953 almost *double* (actually 95% more) the increase of 87,000,000,000 kilowatt-hours we have estimated for this 1950-53 period.

Incidentally, our estimates of power requirements are based on median hydro conditions—drought would cut the margin of reserve capacity, but would not wipe it out. Of course, some people think we have an answer for that at Schenectady, too, as we can always call in our artificial rainmakers. Seriously, if it were not for one or two regions that are low, we would realize our objective of a 25% reserve margin in 1953 instead of 20%.

Suppose war production should be expanded *beyond* the levels forecast here—would there be sufficient electric power to support the added manpower available? Let us assume that we retain a reserve of 5% of electric utility generating capacity, to take care of breakdowns, and devote all the rest of the estimated 1952 margin to increasing production. This is using the horse to invoke the cart, if you follow me, but in that case industrial production would be at a level which would require 5,700,000 (or 38%) more manufacturing employees than today's high level, working 42 hours a week. And if they work 45 hours a week, the peak in the last war, we would still need 4,300,000 (or 30%) more people. The labor force is growing approximately a half-million a year. We are already in a situation of almost full employment, and according to the figures in last week's "United States News," adding less than another 3,000,000 will achieve peak defense production planned for the end of 1951. Simultaneously, we are driving for a 3,000,000-man fighting force. It would appear, therefore, that manpower—not electric power—would be the bottleneck in such an emergency.

In this connection it is worth noting that although the electric industry must have enough generating equipment available to meet the peak demand, even if it lasts but minutes or hours, this capacity is not needed for a large part of a normal one-shift day. Much of it can be put to work for many more hours. For three shifts the capacity is theoretically tripled, although from a practical production standpoint, a third shift never actually delivers its theoretical quota. Also, total power demand does *not* increase in proportion to the amount of power going into defense production. A substantial part of the added defense demand comes about automatically as a result of the diversion of manpower and materials; either of these is more likely to cause bottlenecks.

There is not time enough here to discuss the relation of power to the production of aluminum or steel. Aluminum, which requires about a million kilowatts of installed capacity to produce a billion pounds, is still not in my judgment going to be any threat to our present or potential power production resources. The steel industry has also done a fine job of providing needed capacity, and is on the way to improving that job. I think the important thing to remember—and it seems to be the thing so often overlooked in government planning — is that there are really no absolute limitations on our ability to produce in peace or war; the limitations are relative ones—the relation of manpower and materials and facilities and electric power to each other.

New Equipment at Hand

So far we have talked about the dimensions of the power demand and the ability of the electric companies to meet it. Here are some figures from the manufacturing point of view. Our industry will ship to these companies in the three years 1950 through 1952, based on orders already scheduled, 21,300,000 kilowatts of electric generating equipment. In 1953 they will need another 7,000,000 kilowatts, and the industry will supply that. In fact our manufacturing capacity is somewhat greater—it will be 11,000,000 kilowatts in 1952, for example, and General Electric alone will be able to supply 5,200,000 kilowatts. Our capacity for large steam tur-

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Charles R. Perrigo *Hornblower & Weeks, Chicago*	**William M. Adams** *Braun, Bosworth & Co., Detroit*	**Donald E. McFarland** *Kalman & Company, Inc., Minneapolis*

bines alone has gone up 60% in the last 10 years, thanks to a new $30,000,000 turbine plant, covering 20 acres of land at Schenectady, completed in 1949, and which I thought for a time might be dubbed "Wilson's Folly." Today General Electric can produce more electric generating equipment than the entire industry produced before the war, and twice as much as we produced before the war.

Let me give you just one more figure, because it leads into a statement I made in the beginning. In World War II General Electric alone produced 28,000,000 horsepower of ship propulsion equipment, which is equivalent to 45% of the total installed capacity of our electric companies at the beginning of this year. You will recall that, in forecasting that there would be no power shortage, I stressed the fact that one condition would be that present facilities for building generating equipment for utilities must not be diverted to other purposes. The program I have outlined does not provide generating equipment for the Navy and Merchant Marine, for portable power units, or other special uses. This is an extra job. To make this equipment requires a different kind of plant, and it must be planned well in advance of specific demands for production. If it is not built in advance, it will be ready too late and will cost more. For example, to obtain the same production facilities in a 2½-year period instead of a 4-year period a plant of 2,300,000 square feet would be needed, instead of one of 750,000 square feet. The only way to meet such a demand is to provide entirely new facilities for it, not to divert existing facilities scheduled to meet the demands of the electric companies. General Electric is prepared to establish these facilities—in fact we presented such a plan last week to the Navy and Maritime Commission.

It is my hope that I have been able to shed some light on this tremendously important subject of electric power, and its role in the unfolding picture of American productivity and American security. It is especially important that you people here understand and share my convictions in this. I have tried to give you some reasons, in these facts and figures, for putting your confidence in the ability and vision of a great American industry. By the very nature of our business, electrical manufacturers and electric utilities have always had to be out ahead in the drive to achieve greater productivity for the United States. We always have been—we were in the last war—and we are today. We intend to stay ahead.

This concludes my story on electric power, but in closing I should like to extend an invitation, along with my thanks for your patience. Several months ago there was quite a parade of business people to Washington, at the invitation of the Celler Committee. You will recall that we were asked some very searching questions about our respective businesses, our past behavior, and our plans for the future—both on the material and moral levels. My associates and I responded to the best of our ability and our vision and went home. Now we have returned with another kind of answer, of which we are rather proud. It is a new streamlined train which we call the "More Power to America Special," designed to show industry and civic leaders the newest electrical products and techniques for power generation and distribution, industrial production, transportation, and community improvement. This train is already mid-way in its tour of 150 cities across the country.

BELOW ARE GIVEN IN GREATER DETAIL SOME OF THE FACTS AND FIGURES WHICH SUPPORT MR. WILSON'S STATEMENT

Anticipated Defense Expenditures

(G-E Estimates, in Billions of Dollars)

Year	Total Defense Expenditures	Combat Material (Hard Goods)
1950	14.2	4.5
1951	33.0	17.5
1952	46.0	25.0
1953	41.0	21.0

Estimated Industrial Production

(Federal Reserve Board Index 1935-39=100)

Year	Index
1949	176
1950	197
1951	220
1952	230
1953	225

Load, Peak, Reserve

Estimated power load for 1953: 416 billion kw.-hrs. (43% higher than 1949).

Estimated peak load for 1953: 77.4 million kw. 37% higher than 1949).

Estimated reserve generating capability over 1953 peak: 20%.

Power Load Growth

(In Billions of Kilowatt-hours)

	1940	1943	Increase	1950	1953	Increase
Large Light & Power Sales	59.6	106.7	+79%	139.0	175.0	+26%
Small Light & Power Sales	22.4	28.2	+26%	50.2	62.8	+25%
Domestic and Rural Sales	25.3	31.6	+25%	74.7	101.5	+48%
Total Generation	145.0	221.0	+23%	329.0	416.0	+27%

Estimated increase in industrial production from 1950-53 is 17%, compared with 92% from 1940-43, while the growth in power sales relative to production is expected to be substantially greater than in World War II.

CAPACITY FOR MANUFACTURE OF GENERATING EQUIPMENT

The industry is turning out all kinds of generating equipment at a rate of 6,855,900 kilowatts per year in 1950, of which 6,074,000 kw. is for private utilities.

Capacity for 1952 is 11,000,000 kw. (5,200,000 kw. is GE) with 8,316,000 kw. now scheduled. Open capacity is 400,000 kw. for hydro-electric machines and 1,200,000 for steam machines under 10,000 kw.

(Source: E. E. I. Survey of Manufacturers.)

LARGE STEAM TURBINES SCHEDULED FOR SHIPMENT

(10,000 kw. and up)

Year	For U. S. Utilities	For Export & Industrial	Total
1950	4,913,500 kw.	373,500	5,287,000
1951	4,939,500 kw.	1,265,500	6,205,000
1952	6,686,000 kw.	272,500	6,958,500

This information (from E. E. I. Survey) plus scheduled shipments of hydroelectric equipment, plus estimated shipments of steam turbines under 10,000 kw. and internal combustion generators, indicates that total shipments of generating equipment to utilities in 1950-52 will be as follows:

1950	6,270,000 kilowatts
1951	6,500,000 kilowatts
1952	8,480,000 kilowatts
	21,300,000 kilowatts

A New Realism Needed, Rukeyser Declares

U. S. survival and progress call for a new realism, a rejection of wishful thinking, and increased appreciation of the factors lifting productivity.

Merryle S. Rukeyser

Thus, Merryle Stanley Rukeyser, editorial writer for Hearst newspapers and economic columnist for International News Service, summed up the current overall position of the United States in an address in Lancaster, Pa., under the auspices of the University Club, on Dec. 4.

"Up to now," Mr. Rukeyser, declared, "the labeling of the U. S. military campaign in Korea as a United Nations action has delayed the timing of the Supreme Commander in the field. Where the exigencies of strategy called for prompt decisions. General MacArthur was delayed for 10 days waiting for a green light to cross the 38th parallel. Latterly as long ago as Nov. 6 the General as the UN commander in the Far East reported that his forces were in contact with Chinese Community military units. For three weeks, the debating society, known as the UN, failed to act. On Nov. 30 the UN Security Council passed a resolution against the Communists to withdraw but this was vetoed by the Soviet Union.

"The situation is not unlike a fire department with only limited freedom to act in the event of a catastrophe. It would seem bizarre indeed if in the face of a raging fire, the chief would hold back his smoke eaters for hours or days until the board of alderman was ready to pass resolutions.

"It is now apparent that the enemy is disposed to exploit to his advantage any self deception or false labeling on our part."

Mr. Rukeyser forecast that the new crisis in the Orient would speed up economic and military mobilization in the United States.

"The country," he said, "faces the gigantic task of converting a civilian boom into a vast armament effort. Up to now, the flow of actual job creating military orders to industry has been only a trickle. There is some hazard that peacetime trades will be cut back before the factories are prepared to take up the slack with military production, and some interim unemployment of men and materials is in indicated. Armament orders in the works should be substantial by the middle of 1951.

"After the transitional period, the outlook in 1951 is for high level activity and employment, with industry stimulated by the forced draft of colossal armament spending and by the pressure of continuing inflation."

Continued from page 5

Investors Must Fight Their Enemies

to World War II were the complete antithesis of competition. Businesses were rationalized by allotting them a percentage share of the total of the industry. Production was "coordinated" and prices stabilized. The present Labor government, like its predecessors, encourages monopoly. There are no anti-trust laws. Cartels are the rule.

In Germany there existed a concentration of economic power in the hands of a few banks, to a degree little realized in the United States. The nuclei of what Lenin called "finance capitalism" in his book, "Imperialism the Highest Stage of Capitalism," were the famous four "D" banks—the Deutsche, Dresdner, Darmstaedter and the Disconto-Gesellschaft. Cartels in industry, interlocking and with the government an important shareholder in many instances were even more numerous than in England.

French capitalism likewise had incestuous aspects. Wage scales were and still are low. There was great centralization of financial power in the hands of great banks such as the Societe-Generale, the Credit Lyonnais and the Banque de Paris et de Pays-Bas. The Achilles heel of France was the penchant for several generations of her industrialists to send their profits abroad instead of reinvesting them in plant equipment and machinery. Marshall aid is giving France a new set of tools and it is to be hoped that she has learned an industrial lesson from her unwise industrial practices.

(2) The second fable concerns itself with the alleged maldistribution of incomes in the United States.

We have inequality here, but not nearly in the unwholesome pattern publicized by the Leftists. This is a subject which would take hours to develop intelligently, and I can merely cite a few cold figures. The claim that 2% of the American people own 80% of the wealth is sheer fabrication. The so-called rich (those with incomes of $25,000 or over) got 6.7% of the national income in 1917 after taxes, 3.4% in 1932, 1.3% in 1944 and probably 1.2% now. The people with $5,000 incomes or less collect 90% of the wages and salaries, 70% of the dividend and interest and 83% of the rents. The percentage of the gross proceeds of business which is going to the investor groups in the shape of rents, interest and dividends has dropped alarmingly from 16.9% in 1929, 13.3% in 1939 to only 7.9% in 1948. Here we ask indulgence to digress for a moment and call attention to a deadly parallel. In Socialist Britain, according to a recent White Paper, the share of national income taken by "rent, dividends and interest" declined from 24% in 1938 to 15% in 1948! Somewhere, somebody is being kidded, but it can hardly be the British whose Labor government is following an avowed and open policy of dispossessing the propertied classes.

(3) The third fable concerns itself with monopoly and the concentration of economic power.

The late George Orwell, who wrote the satire on collectivism "1984," would have labeled it "the fable that bigness equals badness." The charge is that small business is losing ground to big business which is largely monopolistic. Up to the time of Korea the cry of the wolf pack against large corporations was in full swing from the "Daily Worker" down through the left-wing Congressmen, Senators and labor leaders to the softly-sobbing Park Avenue liberals. The attack was quite different from those anti-trust actions under the Clayton and Sherman Acts as were instituted prior to 1938 and which resulted in such old-fashioned monopoly cases as those of the Tobacco and Standard Oil trusts, Pullman and Alcoa. The new program concerned itself with "oligopoly," which the professors define as the monopolistic competition of the few, with "conglomerate activities" and with so-called "administered prices." In brief, it sought to show that in each of the 25 or 30 leading industries, a few, perhaps 3, 4, 5 or 6 large units did a large percentage of the business, and perhaps they should be broken up. This view has an ideological rather than a factual basis. Secretary of Commerce Sawyer in an exhaustive report covering 452 industries between 1935 and 1947 concluded that there was no overall increase in concentration. Dun & Bradstreet figures relative to the annual births and deaths of corporations show that there are actually more companies in business today per 1,000 of population than in 1900. Everyone who buys soap, cigarettes, automobiles or any of the products manufactured by large corporations is conscious of the intense competitive spirit in which they bid for the favor of the consumer. The anti-oligopolists would have us believe that Gimbel's loves Macy's and that Chrysler is getting clubby with Chevrolet. Americans don't like monopolies and have no intention of tolerating them, but they will not support an anti-bigness campaign if they are given the facts in the matter.

(4) The fourth fable concerns itself with the claim that corporate profits are too large.

The smear campaign against profits has been in operation for some decades now, and while its origin is Marxist, it has enlisted the conscious or unconscious aid of large numbers of non-communist Leftists. The claim is always that profits are "excessive," "extortionate," "exorbitant" or anyone of a dozen emotion-arousing adjectives. But never is a yardstick or a sound standard of measurement offered to back up this claim. Certainly, taken by themselves, corporate profits are high and, in fact, the highest in U. S. history; but that is only half the story—so is the national income, up from $87 billion in 1929 to around $230 billion now; wages and salaries up from $50 billion then to around $140 billion now. Even with present prosperity, dividends of a little over $8 billion would be about 3½% of national income against 6.6% in 1929 and 5.2% in 1939, a very mediocre year. The fairest measurement of net profits is as a percentage of sales, and here we reach a figure of 5% to 5½%, which is certainly modest. Moreover, profits in an inflationary period are likely to be overstated by the accounting profession. This danger is recognized by the Department of Commerce in its statistical reports and it adjusts "corporate profits after taxes" by a so-called "inventory valuation adjustment" which is equivalent to the change in the cost of replacing inventories and is not really an "economic" profit at all.

Corporate profits in 1950 are thus apt to be overstated by $3 to $4 billion this year.

(5) The fifth fable is about the Welfare State.

Here in brief is the oft told story that government money if paid out into certain channels is bound to make us a nation stronger and wealthier and raise our living standards. There is no doubt that by the taxing power money can be taken from one pocket and placed in another, but new wealth is not thereby created. Security is obviously a legitimate objective of society, but security in an industrial economy must be based on production—the "greatest good for the greatest number" concept. If the average American could be made the realize that his standard of living is based on raw materials plus human energy multiplated by the productive power of tools most of our present day unnecessary social conflicts could speedily be resolved.

(6) The sixth fable relates that high profits usually mean low wages.

The exact reverse is true. Prof. Backman of N. Y. U., Harold Dorsey of Argus Research Corp., and others have shown conclusively by their researches that in years when corporate profits were high, employment was high, hourly wage rates were high and worker prosperity great. This is no mystery because when profits are high, industry builds, equips and expands and therefore employes. A blow at profits may injure us, the investors, but it is a blow against employment as well.

(7) The seventh fable comes out of Karl Marx via Lord Keynes.

It is the misconception that purchasing power is everything. This so-called purchasing power theory holds that if you keep on raising wages you will generate purchasing power and solve unemployment and most other economic imbalances. It neglects the fact that wages are not only a demand factor but a cost factor. Wages if pushed too high without raising productivity may create unemployment.

But mere recognition of the ex-

istence of these fables is not enough. We doubt whether more than a tiny minority of corporation directors and executives realize what the ideological score actually is. We as investors must organize ourselves and insist that our corporations cease dodging and temporizing. What do I mean by this? Well, Father Keller of Notre Dame and Dean McBurney of the School of Speech at Northwestern have criticized the American businessman for his inability or unwillingness to defend himself and the investors under his stewardship. He is untutored and inarticulate. He has no equal so far as manufacturing and selling automobiles, cigarettes, refrigerators or chewing gum are concerned, but when it comes to defending and selling the economic system which has made it possible for Americans who comprise 6% of the world's population outproduce the other 94% he is a flop. He (and we as well) have been pushed around by a lot of Left Wingers who never sold anything in their lives except phoney economics.

So let's recognize, organize and further let's educate. Let's insist that our corporation people stop appeasing their would-be despoilers by their silence. Let's have the courage to do these things. That is one way for us to help make free enterprise work. The Federation of Women Shareholders in American Business is to be congratulated for its good start along these lines. Where the men have pussyfooted the women seem to be forging ahead. There is much to be done. The stakes are tremendous. If we investors will not help ourselves, certainly no one else will.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Last week's market, or rather the action for the past two days, Monday and Tuesday, was a standoff. A few stocks went up and a few went down with strong and weak spots about equally divided.

* * *

If there was any comfort in such a market, I failed to see it.

* * *

This brings us back to the hoary question: what now? To answer that would require a lot of insight into the foreign situation; a knowledge of our foreign policy and where it will turn and how applied. I'm tempted to sound off on this point though I probably know less about it than the average reader of this pillar. Still, after hearing a flock of commentators giving their interpretations of past events as yardsticks of future moves, I too would like to throw my verbal bats into this free-for-all gab-fest. The only thing that stops me is the lack of knowledge, though I notice that hasn't stopped a lot of other people.

* * *

It would be comforting to know what the market would do if we pulled all our forces out of Korea. Would that mean an end of war preparations? An end to stockpiling? An end to new and bigger taxes? I don't know the answers to any of these questions. If anybody does, I'd like to hear them.

* * *

I'm not so naive as to think that pulling UN troops out of Korea will settle anything. There is still Europe to consider, specifically West Germany and the attitude of European countries to our campaign to contain communism. And of course there is Russia, and now Red China. What will they do? According to the papers few of the European countries are interested in going to war. That leaves us leading the parade with few allies following behind. There's a lot of yockety-yock about stockpiling. Yet, if the press is to be believed, few companies have received any orders. So that leaves us in the never-never land.

* * *

How will the market interpret all these things, possible and probable? Frankly, I don't know. But I do know that certain action is based on coming events, even if I don't know what these events will be.

* * *

Last week the market held at the approximate 222 figure and then turned up. The rails not only held but went through to new highs, thereby evoking bullish interpretations from the Dow theory followers. Yet the industrials have some distance to go before they can confirm the rails.

* * *

From where I sit it now looks as if we are in for another "correction." I put quotes around that word because I mistrust "corrections." This could come because of Korean developments, Washington news, or take your pick. But whatever causes it, I suspect that the first phase of the rally is over.

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

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Halsey, Stuart Offers Metropolitan Ed. Bds.

Halsey, Stuart & Co. Inc. is offering today (Dec. 14) $5,250,000 Metropolitan Edison Co. first mortgage bonds, 2¾% series due Dec. 1, 1980 at 100.81% and accrued interest. The bonds were awarded Halsey, Stuart & Co. Inc. at competitive sale Tuesday on its bid of 100.31992%.

Proceeds from the sale will be used in part for the payment of $1,247,500 York Haven Water and Power Co. 5% gold bonds due June 1, 1951. The balance of the proceeds will be applied against the purchase or construction of property additions.

The bonds are redeemable at the option of the company at prices ranging from 103.81% to 100%; and for the sinking fund and other requirements at prices ranging from 100.81% to 100%, plus accrued interest in each case.

The company is a public utility operating wholly within the Commonwealth of Pennsylvania and is engaged principally in the business of generating, transmitting and selling electric energy in all or portions of 4 cities, 90 boroughs and 154 townships located in 14 counties of the Commonwealth. All of the company's common stock is owned by General Public Utilities Corp.

Gross revenues of the company during the 12 months ended Sept. 30, 1950 amounted to $29,225,213 and net income, after all charges, to $4,963,690.

Stanley Heller Opens Palm Beach Branch

PALM BEACH, Fla. — Stanley Heller & Co., members of the New York Stock Exchange, are opening a branch in Palm Beach in the Palm Beach Biltmore Hotel. Associated with that office is Valentine A. Ely. Mr. Ely was formerly with A. M. Kidder & Co. and Draper, Sears & Co. In the past he conducted his own investment business in New York City, holding membership in the New York Stock Exchange.

Mutual Funds

By ROBERT R. RICH

Investor Diversified Expects High Building Finance

Funds Available for Industrial and Commercial Expansion

Investors Diversified Services expects to maintain a fairly high level of financial assistance to builders during 1951, within existing government credit regulations, Donald E. Ryan, Vice-President, said in a review of the building financing outlook for the New Year.

While the nation's defense requirements may largely condition the total amount of new construction during 1951, Investors will make funds available for needed industrial and commercial construction such as shopping centers and plant additions required by expanding companies, Ryan said.

Investors is playing an important part in financing new housing and other construction across the nation. The company provided $190 million in original building funds for approximately 31,000 new housing units in 1950, Mr. Ryan disclosed. The company last year financed approximately two out of every 100 new dwelling units built in the United States.

"In view of drastic down payments now required to buy or build new houses under Regulation X, we expect that new non-farm housing starts during 1951 will probably be cut much more than 50% from 1950's all-time high of approximately 1,400,000 units," Ryan estimated.

Total new private and public construction in the United States, which also hit all-time high monthly averages of more than $2 billion per month during 1950, may also be expected to slack off somewhat during 1951, pending evaluation and possible re-alignment of defense needs which might require substantial additions to existing defense production plans and military facilities, it was pointed out.

He said that until defense construction begins to take up the slack resulting from the expected dip in home building, there might be considerable unemployment in the building industry generally.

Vance Sanders Asks "Are Stocks Too High?"

"Every so often we hear people comment to the effect that 'stocks are too high' because the Dow-Jones index of 30 industrial stocks has advanced some 70 points since its low of 1949," Edward E. Hale reports in Vance Sanders' "Brevits."

"These people are, of course, taking a literal view of the point advance in the industrial average and are not relating the increase to the broad perspective of where stocks are generally.

"While a 70 point gain suggests a marked rise, the 43% gain from the 1949 low which this advance represents suggests only a modest rise by comparison. In short, the 70 measuring points contrast with only 43 measuring points and it is only a matter of 'how you look at it' as to whether stocks have had a subsatntial rise or only a moderate rise since the low of 1949.

"Perhaps if we put it another way, the point may become even more apparent. We wonder, for instance, how many people there are who can look at a list of securities quotations and say that an individual stock is 'too far out of line' if it has gone say from $9 to $12⅞. Yet that is all that has happened to the Dow-Jones index of 30 industrial stocks since the approximate low of 1949 if you translate it percentage-wise to a stock of lower value."

Dividend Shares Payments Ahead of Living Cost Rise

Dividends 105% Above 1940; Living Costs Rise 73%

Dividends paid on the capital stock of Dividend Shares have increased at a rate considerably greater than the rate of increase in the cost of living, according to a compilation prepared by Calvin Bullock.

Per share dividends paid from net investment income by Dividend Shares, Inc. in 1950 were 105% larger than the dividends paid in 1940 (8½c a share against 4.13c a share) while the rise in the cost of living since 1940, as measured by the Consumers' Price Index of the U. S. Bureau of Labor Statistics, has amounted to 73%, the firm said. The dividends paid from net investment income, used in the compilation, do not include payments made from net securities profits.

"Perspective" Forecasts Peak Oil Demand

A new all-time peak in demand for petroleum is projected for the year 1951 according to "Perspective's" study, "The Petroleum Industry Booms Again," published by Calvin Bullock.

Placing estimated daily consumption of oil next year at 7,125,000 barrels — an increase of more than 5% over the approximately 6,740,000 barrel demand during 1950, the record to date— the firm stated that the "estimate is probably on the conservative side, and total demand could possibly rise another 100,000 to 150,000 barrels daily under particularly favorable circumstances, especially in regard to weather."

Crude oil production, the analysis continued, should at least equal anticipated demand and could exceed it if the industry added to inventory in the coming year.

The domestic industry should be capable of meeting the indicated demand without undue strain and "in view of the profitableness of crude oil production together with the current political environment, any significant increase in the general crude oil price structure should not be expected," according to the study.

Boston Fund Assets At Record High

Boston Fund reports its assets reached a record total of $56,283,403 on Oct. 31, 1950, with 2,601,069 shares outstanding.

The net asset value per share on Oct. 31 amounted to $21.64, compared with $20.61 on July 31 and $20.45 on Oct. 31, 1949.

Holdings on Oct. 31 consisted of common stocks in 61 companies, representing 15 industries, while the fixed-income portion of the portfolio was in 49 issues of preferred stocks and bonds.

Diversified's Assets Near Twenty Million

Share Value Up 16.3%; Dividends Also Increase

Assets of Diversified Investment Fund increased to $19,033,000 at the end of the Fund's fiscal year on Nov. 30, 1950, from $16,426,000 on Nov. 30, 1949. The forthcoming annual report to the more than 8,000 shareholders will show net asset value per share of $12.33, an increase of 16.3% for the fiscal year. Income received by shareholders was also higher. Dividends paid from ordinary income in 1950 amounted to $1,114,850 or 72c per share as against 64c per share paid in 1949.

Diversified Investment Fund on Nov. 30, 1950, owned 29 different bonds and preferred stocks, representing 32.1% of assets, and common stocks of 51 different companies, representing 65.9% of assets. Largest holdings by industries were in retail trade stocks, the oils, utilities and textiles.

Stein, Roe & Farnham Over Two Million

Harry H. Hagey, Jr., President of Stein, Roe & Farnham Fund announced that the net asset value of the Fund, which has had 60% of its assets invested in common stocks since inception, now amounts to $2,244,459.07, equivalent to $60.77 on each of the 36,933 shares presently outstanding. When organized last year, the Fund's assets totaled $105,000, at which time the price per share was $50.

"The Fund's rapid growth is gratifying," said Mr. Hagey, "because it reflects increasing public acceptance of the open-end investment company in the Middle West where Chicago has only recently started to assume importance as a home for investment trust management."

Lexington Trust Reports

Lexington Trust Fund reports net assets of $2,134,542 on Oct. 31, with 895,129 shares outstanding, for a per share value of $2.38.

Max Bolhover Joins C. G. McDonald Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, Mich.—Max E. Bolhover has become associated with C. G. McDonald & Company, Penobscot Building members of the Detroit Stock Exchange. He was formerly manager of the trading department for Charles E. Bailey & Company.

Dean Witter Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Edwin F. Major and William G. Williams, Jr. have been added to the staff of Dean Witter & Co., 632 South Spring Street.

Business Man's Bookshelf

Credit Manual of Commercial Laws, 1951—National Association of Credit Men, 1 Park Avenue, New York 16, N. Y.—Cloth—$10.

Decade of Progress in Annual Reporting, A—Dr. Lewis H. Haney—Bertrand W. Hall & Co., 41 East 42nd Street, New York 17, N. Y.—Limited number of copies available to corporations on request.

Human Rights—World Declaration and American Practice — Roger N. Baldwin—Public Affairs Pamphlets, 22 East 38th Street, New York 16, N. Y.—Paper—20c.

My Job Contest — Chester E. Evans and La Verne N. Laseau—Personal Psychology, 1727 Harvard Street, N. W., Washington, D. C.—Paper.

Schools of Corporate Reform — Harold Gill Reuschlein — University of Pittsburgh Press, Pittsburgh, Pa.—Cloth—$2.50.

Daniel Rice Moves N.Y. Office to New Location

Daniel F. Rice and Co. announces the removal of its New York office to 521 Fifth Avenue. Robert F. Sully is resident manager and Arthur Burian is trader.

Stock Exchange Erects Christmas Tree

A 50-foot Norway spruce has been erected by the New York Stock Exchange in Broad Street. It is the 27th tree to bring holiday warmth to the financial community. Commencing Friday, Dec. 15, when the tree will be lighted, carols will be played from the outside gallery of the Exchange at noon and in the late afternoon.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

The first official indication of yearly operating earnings of the major New York City banks is usually provided by the Bank of the Manhattan Company.

As provided in its original charter, the annual meeting of this institution is held the first Tuesday in December as against the January meetings of other banks. The 152nd annual meeting of the Bank of the Manhattan Company was held Dec. 5, 1950. At that time the Chairman of the Board, Mr. J. Stewart Baker, commented on national events and policies as they affect monetary, banking and political conditions in this country. At that time also, an estimate was made of the results to be expected from the current operations.

On the basis of operating earnings realized in the first nine months and expected results for the last three months of the current year, Mr. Baker estimates 1950 earnings of the Bank of the Manhattan Company at $2.42 a share as compared with the $2.10 reported for the year 1949.

The profits on sales of securities are not included in the per share estimate. They amounted to approximately $271,000 after appropriate tax provisions and were added to undivided profits. In the corresponding period of 1949 a profit on security sales of $17,000 was shown.

An accurate report of the operating earnings for the year will be given to stockholders in January. However, a breakdown of the estimated results for 1950 as compared with those of 1949 was presented at the stockholders' meeting.

It is of interest at this point because it is a reflection, in part, of the operating conditions which have been present during the past year.

	1950 Estimated	1949
Earnings:		
Interest on Loans	$15,850,000	$13,248,000
Interest and Dividends on Securities	5,850,000	6,415,000
Commissions and Fees	3,700,000	3,516,000
Other Earnings	750,000	699,000
	$26,150,000	$23,878,000
Expenses:		
Salaries and Wages	8,950,000	8,651,000
Other Expenses	5,250,000	5,213,000
Provisions for Taxes and Assessments	5,900,000	4,748,000
Net Operating Earnings	$6,050,000	$5,266,000
Per Share	$2.42	$2.10

The principal factors in the improved showing of Bank of Manhattan have been the greater demand for commercial loans and higher interest rates. Deposits during the two years have shown only minor changes, so that the increase in earnings has been the result of the utilization of resources in a more profitable manner.

This, of course, has been reflected in the rate of return on earning assets of the company. Up to Oct. 31, this year, the average annual rate of return was 2.47% as compared with 2.36% last year.

Although interest rates on government securities have been firmer this year, the total income realized from this source is expected to be lower. Holdings of governments have been lightened to provide part of the funds which have been used to meet the demand for loans. Other sources of earnings, according to the breakdown are slightly higher.

As to expenses, they have been well controlled. Salaries and wages are higher by only a small amount as are other operating expenses. Provision for taxes and assessments showed the largest increase but in spite of this, net operating earnings were higher by about 15% rising to an estimated $6,050,000 from $5,266,000.

Several other points of interest were included in the report of the Chairman of the Board at the annual meeting. As an example it was revealed that Bank of Manhattan will add $4,000,000 to its loan reserve this year bringing the total reserve up to $11,250,000, the present maximum. Funds for this reserve will be obtained from the tax saving resulting from the reserve and certain other reserves no longer required.

Also Mr. Baker commented upon the change in the Federal Deposit Insurance Act effective Dec. 31 of this year. Under the new formula, after operating expenses, additions to reserves, losses, etc., 40% of the assessment would be transferred to the FDIC capital account and the remainder credited pro rata to the insured banks against future assessments. For the Bank of the Manhattan Company, the credit next year is estimated at around $400,000.

J. S. Rippel Passes: New Jersey Inv. Dealer

J. S. Rippel, President of J. S. Rippel & Co., Newark, N. J., died at his home Dec. 9 at the age of 82. Mr. Rippel, who had been a leading figure in banking and financing in New Jersey, conducted his own firm for 44 years, and scouted the idea of retirement.


Julius S. Rippel

Born in modest circumstances, Mr. Rippel established his own investment business at the age of 23, and was soon recognized as an authority in his field, being prominent in the financing of companies which later formed the Public Service Electric, Gas and Transportation Companies. He also specialized in local banks and insurance companies in which he retained an interest throughout his life, serving on the directorate of many of them. Only a short time ago he was active in the merger of the United States Trust Company and the National State Bank.

Known for his philanthropies, he established the J. S. Rippel Foundation to further progress in the fields of government and taxation by research.

With Smith, Hague & Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, Mich.—Lee D. Walker has become associated with Swith, Hague & Co., Penobscot Building, members of the New York and Detroit Stock Exchanges. He was formerly with Chas. E. Bailey & Co. and S. R. Livingstone & Co.

NASD District 8 Elects to Office

CHICAGO, Ill.—The annual election in District No. 8 of the National Association of Securities Dealers, Inc., comprised of the States of Illinois, Iowa, Indiana, Michigan, Nebraska and Wisconsin, has resulted in four new members of the District Committee.

James H. Ellis, President, Ellis, Holyoke & Company, Lincoln, Nebraska; Carl McGlone, President and Treasurer, Carl McGlone & Co. Inc., Chicago, Illinois; Newton P. Frye, President, Central Republic Company, Chicago, Illinois; and G. William Raffensperger, Hughes & Co. Inc., are the new members of District Committee No. 8.

Those retiring are: John M. Douglas, Omaha, William C. Gibson, Chicago, Lee H. Ostrander, Chicago, and Frank L. Reissner, Indianapolis.

New members of the District Committee will assume office on Jan. 15.

Ernst & Co. 15-Year Club To Hold Get-Together

The 15-Year Club of Ernst & Co., 120 Broadway, New York City, will hold its get-together on Thursday evening, Dec. 14, at the Old Roumanian Restaurant.

Canadian Securities

By WILLIAM J. McKAY

The wisdom of Canada's bold experiment in the field of foreign exchange becomes increasingly evident in the light of current developments. In the absence of such action the influx of foreign flight capital would have attained intolerable proportions, and inflationary pressures would have been almost beyond control. On the other hand the Dominion's export position at the higher level of exchange is no whit weaker than previously, as a result of the recent resurgence of world demand for raw materials. In point of fact the export figures for October, the first month following the freeing of the dollar, were the second highest on record in the postwar period. Furthermore, shipments to this country registered a new monthly peak. There is also nothing to suggest that there will be any early reversal of this favorable trend.

Countries such as Australia and the United Kingdom must now bitterly regret their failure to follow the constructive example set by a member of the Commonwealth family. It will be recalled that it was confidently anticipated following the deliberations of the British Commonwealth meeting last September, that action along the Canadian lines would have been simultaneously adopted by all the British Dominions, with the exception of Pakistan. As matters transpired, Canada was apparently forced to jump the gun as a result of a sudden overwhelming flood of U. S. speculative purchases of Canadian dollars. Australia, however, despite a cabinet majority in favor of revaluation, was confronted with the violent opposition of the Country Party minority. In order to preserve the precariously poised unity of the Coalition Government the Commonwealth authorities reluctantly decided against the currency move, even though mounting inflationary pressure on Australian living costs virtually dictated such a step.

In the case of the United Kingdom the failure to follow the revaluationary course is even more difficult to reconcile in view of the compelling circumstances. A possible explanation is the hiatus in British Treasury policy caused by the untimely defection of Chancellor of the Exchequer Sir Stafford Cripps. It is understood on good authority that the former director of British financial policy was definitely in favor of sterling revaluation. Moreover when criticism was voiced in the House of Commons of the extent of sterling devaluation, Sir Stafford stated that the low level had been deliberately chosen, but that it would always be possible to correct the undervaluation whenever the circumstances justified such action. His successor would naturally hesitate to take the responsibility of making a momentous decision of this kind, and has consequently explored other alternatives.

In the first place Mr. Gaitskell has voiced the opinion that before revaluation can be seriously considered it would be advisable to build up the exchange reserves to a level in the neighborhood of $10 billion. In addition to the fact that this figure is almost impossible of attainment, its financing would constitute an embarrassing problem, and in the light of past experience such a margin of safety is totally unnecessary. The British Chancellor now announces that the terms of trade have deteriorated to such an extent that it will be necessary during 1951 to increase exports by £300 million in order to pay for required imports. In view of the present peak production levels it is difficult to conceive how this formidable task can possibly be achieved, especially when consideration is given to rearmament requirements.

It is possible that in proposing objectives that are patently impossible of achievement, Mr. Gaitskell is leaving open for suggestion the only practical method of escape from Britain's present quandary—upward adjustment of the exchange rate that would automatically redress the alarming degree of imbalance between import costs and export returns. This important step that was at least a possibility at the time of Mr. Gaitskell's pre-election visit to Washington, must now be receiving very serious consideration following the recent discussions of President Truman and Prime Minister Attlee; a strong pound is by no means an inconsiderable factor in the struggle of the free world against the forces of aggression.

As far as Canada is concerned sterling revaluation would have a beneficial effect with regard to the terms of British-Canadian trade. Present efforts to increase British purchases from Canada are greatly impeded by higher costs of imports from the Dominion since the recent appreciation of the Canadian dollar. In the event of such a step also there is little question that the Dominion's currency unit would more readily be permitted to attain full parity with the U. S. dollar.

During the week there was slightly more activity in the external section of the bond market and a moderate turnover was recorded in Canadian Nationals. The internals were quiet but at the present lower levels there are now indications of renewed buying interest. The corporate-arbitrage rate was higher at 7¾%-7%, but the Canadian dollar on commercial selling moved lower. Stocks continued to recover following the recent sharp decline led by the base-metals. The industrials and Western oils also made good progress but the golds, as is to be expected, made little headway.

With Mitchum Tully

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Harry L. Butzbach has joined the staff of Mitchum, Tully & Co., 650 South Spring Street. He was formerly with the Pacific Company of California.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available. Dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date:

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Dec. 17	101.3	100.5	102.7	94.1
Equivalent to—					
Steel ingots and castings (net tons)	Dec. 17	1,953,800	1,938,400	1,980,800	1,734,700
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Dec. 2	5,825,220	5,887,870	5,896,450	5,105,950
Crude runs to stills — daily average (bbls.)	Dec. 2	¶6,034,000	6,238,000	6,117,000	5,329,000
Gasoline output (bbls.)	Dec. 2	19,917,000	19,847,000	20,156,000	18,128,000
Kerosene output (bbls.)	Dec. 2	2,781,000	2,386,000	2,309,000	2,209,000
Gas, oil, and distillate fuel oil output (bbls.)	Dec. 2	8,613,000	8,591,000	8,747,000	6,766,000
Residual fuel oil output (bbls.)	Dec. 2	8,521,000	8,470,000	8,454,000	8,342,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Dec. 2	109,509,000	106,424,000	104,350,000	105,264,000
Kerosene (bbls.) at	Dec. 2	26,291,000	28,291,000	29,115,000	25,151,000
Gas, oil, and distillate fuel oil (bbls.) at	Dec. 2	84,891,000	86,768,000	86,886,000	89,448,000
Residual fuel oil (bbls.) at	Dec. 2	45,221,000	45,566,000	44,689,000	66,271,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Dec. 2	739,922	701,421	862,184	693,923
Revenue freight received from connections (number of cars)	Dec. 2	595,261	642,159	722,248	597,631
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Dec. 7	$484,875,000	$260,346,000	$101,916,000	$302,115,000
Private construction	Dec. 7	110,105,000	127,681,000	39,831,000	78,490,000
Public construction	Dec. 7	374,770,000	132,665,000	62,085,000	223,625,000
State and municipal	Dec. 7	109,488,000	101,250,000	52,924,000	52,942,000
Federal	Dec. 7	265,282,000	31,415,000	9,161,000	170,683,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Dec. 2	9,400,000	9,050,000	11,410,000	9,548,000
Pennsylvania anthracite (tons)	Dec. 2	847,000	692,000	587,000	1,018,000
Beehive coke (tons)	Dec. 2	79,600	*132,400	152,400	11,300
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Dec. 2	444	319	315	449
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Dec. 9	6,908,631	6,716,273	6,574,084	5,881,360
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.	Dec. 7	170	160	135	191
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Dec. 5	4.131c	3.837c	3.837c	3.705c
Pig iron (per gross ton)	Dec. 5	$51.94	$49.69	$49.69	$45.88
Scrap steel (per gross ton)	Dec. 5	$40.75	$40.75	$41.67	$27.92
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Dec. 6	24.200c	24.200c	24.200c	18.200c
Export refinery at	Dec. 6	24.425c	24.425c	24.425c	18.425c
Straits tin (New York) at	Dec. 6	142.000c	146.000c	151.000c	81.000c
Lead (New York) at	Dec. 6	17.000c	17.000c	17.000c	12.000c
Lead (St. Louis) at	Dec. 6	16.800c	16.800c	16.800c	11.800c
Zinc (East St. Louis) at	Dec. 6	17.500c	17.500c	17.000c	9.750c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Dec. 12	101.33	101.34	101.54	104.23
Average corporate	Dec. 12	115.43	115.24	115.43	115.63
Aaa	Dec. 12	119.61	119.41	119.82	121.25
Aa	Dec. 12	118.40	118.60	118.60	119.61
A	Dec. 12	114.66	114.66	114.85	115.04
Baa	Dec. 12	109.24	109.06	109.06	107.27
Railroad Group	Dec. 12	111.62	111.44	111.62	110.15
Public Utilities Group	Dec. 12	115.63	115.63	115.82	117.20
Industrials Group	Dec. 12	119.00	119.00	119.20	119.82
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Dec. 12	2.40	2.40	2.38	2.19
Average corporate	Dec. 12	2.88	2.89	2.88	2.87
Aaa	Dec. 12	2.67	2.68	2.66	2.59
Aa	Dec. 12	2.73	2.72	2.72	2.67
A	Dec. 12	2.92	2.92	2.91	2.90
Baa	Dec. 12	3.21	3.22	3.22	3.32
Railroad Group	Dec. 12	3.08	3.09	3.08	3.16
Public Utilities Group	Dec. 12	2.87	2.87	2.86	2.79
Industrials Group	Dec. 12	2.70	2.70	2.69	2.66
MOODY'S COMMODITY INDEX	Dec. 12	487.1	480.4	486.3	346.0
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Dec. 2	295,064	181,234	321,394	259,736
Production (tons)	Dec. 2	232,728	228,706	236,142	201,766
Percentage of activity	Dec. 2	101	100	102	93
Unfilled orders (tons) at	Dec. 2	722,046	671,985	774,891	429,785
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Dec. 8	142.4	140.6	138.4	123.1
STOCK TRANSACTIONS FOR THE ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON THE N. Y. STOCK EXCHANGE—SECURITIES EXCHANGE COMMISSION:					
Odd-lot sales by dealers (customers' purchases)—					
Number of orders	Nov. 25	27,555	31,998	35,054	19,299
Number of shares—Customers' total sales	Nov. 25	855,784	935,447	1,058,610	579,308
Dollar value	Nov. 25	$36,194,964	$41,324,077	$44,640,123	$23,143,575
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Nov. 25	29,994	31,053	36,060	22,436
Customers' short sales	Nov. 25	278	348	276	203
Customers' other sales	Nov. 25	29,716	30,705	35,784	22,233
Number of shares—Customers' total sales	Nov. 25	892,102	914,278	1,044,301	613,731
Customers' short sales	Nov. 25	10,965	13,046	10,451	7,829
Customers' other sales	Nov. 25	881,137	901,232	1,033,850	605,900
Dollar value	Nov. 25	$34,602,286	$36,312,568	$40,534,080	$21,968,358
Round-lot sales by dealers—					
Number of shares—Total sales	Nov. 25	295,630	279,210	326,910	244,110
Short sales	Nov. 25	------	------	------	------
Other sales	Nov. 25	295,630	279,210	326,910	244,110
Round-lot purchases by dealers—					
Number of shares	Nov. 25	276,170	366,980	347,990	180,340
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Dec. 5	172.6	171.7	170.0	151.2
Farm products	Dec. 5	187.5	185.7	181.3	154.3
Grains	Dec. 5	175.0	172.6	172.6	161.3
Livestock	Dec. 5	225.5	222.1	225.5	186.5
Foods	Dec. 5	180.0	178.2	173.6	156.4
Meats	Dec. 5	245.5	243.1	237.6	209.1
All commodities other than farm and foods	Dec. 5	163.4	*162.8	162.2	145.2
Textile products	Dec. 5	166.4	166.2	164.4	138.5
Fuel and lighting materials	Dec. 5	134.8	135.4	135.3	130.1
Metals and metal products	Dec. 5	183.3	180.6	180.6	167.1
Building Materials	Dec. 5	220.7	*219.1	218.2	189.9
Chemical and allied products	Dec. 5	136.7	136.6	133.7	115.7

*Revised figure. ¶Includes 551,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
AMERICAN PETROLEUM INSTITUTE—Month of September:			
Total domestic production (bbls. of 42 gallons each)	192,102,000	191,043,000	161,476,000
Domestic crude oil output (bbls.)	176,636,000	175,594,000	148,206,000
Natural gasoline output (bbls.)	15,459,000	15,442,000	13,259,000
Benzol output (bbls.)	7,000	7,000	11,000
Crude oil imports (bbls.)	15,760,000	15,539,000	11,228,000
Refined products imports (bbls.)	10,005,000	10,476,000	7,460,000
Indicated consumption—domestic and export (bbls.)	201,547,000	215,742,000	185,104,000
Increase—all stocks (bbls.)	16,320,000	1,316,000	‡‡4,940,000
AMERICAN ZINC INSTITUTE, INC.—Month of November:			
Slab zinc smelter output, all grades (tons of 2,000 lbs.)	79,226	79,997	65,055
Shipments (tons of 2,000 lbs.)	79,079	81,156	73,702
Stocks at end of period (tons)	9,255	9,108	89,019
Unfilled orders at end of period (tons)	60,799	64,436	29,166
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD — Month of October:			
Total U. S. construction	$1,012,046,000	$959,530,000	$589,224,000
Private construction	518,944,000	590,648,000	312,227,000
Public construction	493,102,000	368,882,000	276,997,000
State and municipal	392,592,000	327,128,000	235,223,000
Federal	100,510,000	41,754,000	41,774,000
CONSUMER PRICE INDEX FOR MODERATE INCOME FAMILIES IN LARGE CITIES 1935-1939 = 100 — As of Oct. 15:			
All items	174.8	173.8	168.5
All foods	209.0	203.5	200.6
Cereals and bakery products	177.1	176.5	169.4
Meats	250.9	257.8	235.1
Dairy products	190.6	185.2	186.7
Eggs	207.2	193.0	227.8
Fruits and vegetables	187.0	184.6	194.5
Beverages	343.9	336.7	213.8
Fats and oils	154.6	159.0	144.5
Sugar and sweets	186.3	187.5	177.5
Clothing	193.4	190.5	186.8
Rent	125.0	124.8	121.5
Fuel, electricity and refrigerators	143.1	141.8	138.4
Gas and electricity	96.8	97.0	97.0
Other fuels	199.4	196.5	188.3
Ice	150.3	148.0	145.6
House furnishings	199.8	195.4	185.2
Miscellaneous	159.5	158.8	153.2
COPPER INSTITUTE—For Month of October:			
Copper production in U. S. A.—			
Crude (tons of 2,000 pounds)	91,299	*86,678	69,052
Refined (tons of 2,000 pounds)	110,435	111,842	86,882
Deliveries to customers—			
In U. S. A. (tons of 2,000 pounds)	121,806	119,529	108,192
Refined copper stocks at end of period (tons of 2,000 pounds)	56,945	58,748	164,464
COTTON GINNING (DEPT. OF COMMERCE):			
Running bales (exclusive of linters) prior to Dec. 1	8,790,417	------	13,975,840
COTTON PRODUCTION — U. S. DEPT. OF AGRICULTURE—As of Dec. 1:			
Production 500-lb. gross bales	9,884,000	9,945,000	16,127,000
DEPARTMENT STORE SALES (FEDERAL RESERVE SYSTEM—(1935-39 Average=100) Month of November:			
Adjusted for seasonal variation	288	*292	277
Without seasonal adjustment	352	*309	339
MOODY'S WEIGHTED AVERAGE YIELD OF 200 COMMON STOCKS — Month of Nov.:			
Industrials (125)	7.13	6.76	6.86
Railroad (25)	6.86	6.39	8.11
¶¶Utilities (24)	6.10	6.02	5.64
Banks (15)	4.61	4.63	4.61
Insurance (10)	3.43	3.22	3.00
Average yield (200)	6.80	6.49	6.62
METAL PRICES (E. & M. J. QUOTATIONS)— Average for Month of November:			
Copper (per pound)—			
Electrolytic domestic refinery	24.200c	24.200c	18.062c
Electrolytic export refinery	24.425c	24.425c	18.290c
Lead (per pound)—			
Common, New York	17.000c	16.040c	12.522c
Common, St. Louis	16.800c	15.840c	12.326c
Silver and Sterling Exchange—			
Silver, New York (per ounce)	80.000c	75.060c	73.250c
Silver, London (pence per ounce)	70.000d	65.182d	64.000d
Sterling Exchange (Check)	$2.80000	$2.80000	$2.79750
Zinc (per pound)—East St Louis	17.500c	17.500c	9.750c
Tin (per pound)—			
New York Straits	137.217c	113.420c	91.191c
§§New York, 99% min.	136.217c	112.420c	90.191c
Gold (per ounce U. S. price)	$35.000	$35.000	$35.000
Quicksilver (per flask of 76 pounds)	$99.348	$89.520	$71.870
¶Antimony (per pound) (E. & M. J.)	35.280c	35.280c	35.280c
Antimony (per pound), bulk, Laredo	32.000c	32.000c	32.000c
Antimony (per pound), in cases, Lareod	32.500c	32.500c	32.500c
Antimony (per pound), Chinese Spot	Nominal	Nominal	Nominal
Platinum, refined (per ounce)	$90.000	$95.200	$69.000
†Cadmium (per pound)	$2.40000	$2.40000	$2.00000
‡Cadmium (per pound)	$2.52500	$2.52500	$2.07500
§Cadmium (per pound)	$2.65000	$2.65000	$2.15000
Cobalt, 97%	$1.80000	$1.80000	$1.80000
Aluminum, 99% plus, ingot (per pound)	19.000c	19.000c	17.000c
Magneisum, ingot (per pound)	24.500c	24.500c	20.500c
**Nickel	48.000c	48.000c	40.000c
RAILROAD EARNINGS — CLASS I ROADS (ASSOCIATION OF AMERICAN RRS.)— Month of October:			
Total operating revenues	$925,383,234	$872,032,232	$649,246,400
Total operating expenses	635,020,694	600,697,481	521,127,075
Operating ratio-per cent	68.62%	68.88%	80.27%
Taxes	$139,032,238	$133,245,141	$65,599,160
Net railway operating income before charges	134,629,278	122,622,393	46,667,317
Net income after charges (est.)	108,000,000	99,000,000	22,000,000
UNITED STATES GROSS DEBT DIRECT AND GUARANTEED—(000's omitted):			
As of Nov. 30	$257,100,124	$256,958,761	$257,011,328
General fund balance	4,139,297	4,145,258	4,421,935
Net debt	$252,960,827	$252,813,503	$252,589,393
Computed annual rate	2.204%	2.201%	2.222%
ZINC OXIDE (BUREAU OF MINES) — Month of October:			
Production (short tons)	20,576	18,949	10,431
Shipments (short tons)	19,672	21,170	15,558
Stocks at end of month (short tons)	10.258	9,354	10,768

*Revised figure. †Based on the producers' quotation. ‡Based on the average of the producers' and platers' quotations. §Based on platers' quotations. ¶Domestic, five tons or more but less than carload lot packed in cases, f.o.b. New York. **F.O.B. Port Colburne, N. S., U. S. duty included. §§Tin contained. ‡‡Decrease—All stocks (bbls.). ¶¶Not including stock of American Tel & Tel.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• Aerated Products Rochester Co., Inc.
Dec. 5 (letter of notification) 500 shares of common stock (no par) to be offered present stockholders. **Price**—$10 per share. **Underwriter** — None. **Proceeds** — For new equipment and expansion program. **Office**—1009 Joseph Avenue, Rochester, N. Y.

• Aerated Products Syracuse Co., Inc.
Dec. 5 (letter of notification) 500 shares of common stock (no par) to be offered to present stockholders. **Price**—$10 per share. **Underwriter**—None. **Proceeds**—For new equipment and expansion program. **Office**—3721 New Court Road, Salina, East Syracuse, N. Y.

Aeronca Mfg. Corp., Middletown, Ohio
Oct. 2 (letter of notification) $50,000 of 4% convertible promissory notes and 50,000 shares of common stock (latter to be reserved for conversion of notes on basis of 1 share for each $1 unit of notes). **Price**—$2.12½ per $1 unit of notes. **Underwriter**—Greene & Ladd, Dayton, O. **Proceeds**—For working capital. **Office**—Municipal Airport, Middletown, O.

Alhambra Gold Mines Corp., Hollywood, Calif.
Nov. 1 filed 80,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For further development of mine and for working capital.

American Cladmetals Co., Carnegie, Pa.
Oct. 19 (letter of notification) 62,000 shares of common stock (par $1). **Price**—At market (about $1.12½ per share). **Underwriter**—Hemphill, Noyes, Graham, Parsons & Co., New York. **Proceeds**—To Charles R. Anthony, Chairman of the Board, who is the selling stockholder.

American Gas & Electric Co.
Nov. 9 filed 116,662 shares of common stock (par $10), to be offered in exchange for common stock of Central Ohio Power & Light Co. on the basis of 72/100ths of a share of American Gas common stock for each Central Ohio common share. **Underwriter**—None.

American Investment Co. of Illinois
Nov. 10 filed 97,121 shares of common stock (par $1), offered common stockholders of record Nov. 29 at the rate of one share for each 20 shares owned; rights expire 4 p.m. (EST) Dec. 14. **Price**—$17.50 per share. **Underwriters**—Kidder, Peabody & Co., Alex. Brown & Sons and Glore, Forgan & Co. **Proceeds**—To retire preferred stock and for general corporate purposes. Statement effective Nov. 30.

• Ampal-American Palestine Trading Corp., N. Y.
Dec. 8 filed $5,000,000 of 15-year 4% sinking fund bonds, series A, due 1966. **Underwriter**—None. **Proceeds**—To develop and expand agricultural, industrial and commercial enterprises in Israel.

• Annville Water Co., Annville, Pa.
Dec. 11 (letter of notification) $60,000 of first refunding mortgage 4½% bonds, to be issued in exchange for $60,000 outstanding first refunding mortgage 5½% gold bonds due May 1, 1951. **Price**—To be issued in units of $500 each. **Underwriter**—None.

Atlantic Oil Corp., Tulsa, Okla.
Nov. 13 (letter of notification) 48,046 shares of capital stock. **Price**—At par ($5 per share). **Underwriter**—Continental Corp., Tulsa, Okla. **Proceeds**—To purchase oil and gas properties.

Big West Oil & Gas Co., Dallas, Tex.
Sept 5 filed $1,760,000 of 5% sinking fund debentures due 1965 (convertible into common stock on basis of 200 shares for each $1,000 of debentures). **Price**—To be filed by amendment. **Underwriter**—H. M. Byllesby & Co., Inc., Chicago, Ill. **Proceeds** — For drilling and development expenses and for working capital. Statement withdrawn Dec. 4.

Birmingham (Ala.) Fire Insurance Co.
Oct. 17 (letter of notification) 10,000 shares of common stock to be offered to present common stockholders. **Price**—At par ($10 per share). **Underwriter**—None. **Proceeds**—To enlarge insurance business. **Office**—221 No. 21st St., Birmingham, Ala.

• Brass & Copper Sales Co., St. Louis, Mo.
Dec. 4 (letter of notification) 1,559 shares of common stock (par $10) to be offered to common stockholders at rate of one share of each eight shares held. **Price**—$37.50 per share. **Underwriter**—None. **Proceeds**—For working capital. Office—2817 Laclede Avenue, St. Louis 3, Missouri.

Central Illinois Public Service Corp.
Nov. 13 filed 267,600 shares of common stock (par $10) to be offered initially to common stockholders at rate of one share for each 10 shares held. **Price**—To be supplied by amendment. **Underwriters**—The First Boston Corp. and Blyth & Co., Inc. **Proceeds**—For construction program. Temporarily postponed.

• Central Soya Co., Inc., Fort Wayne, Ind.
Dec. 4 (letter of notification) 1,600 shares of capital stock (no par). **Price**—To be offered at market (approximately $36 per share). **Underwriter**—Swift, Henke & Co., Chicago, Ill. **Proceeds**—To Harold W. McMillen, the selling stockholder.

Chattanooga Gas Co. (12/15)
Nov. 24 filed 650,000 shares of common stock (par $1), including 500,000 shares acquired by Equitable Securities Corp. from Southern Natural Gas Co., and 150,000 shares from the utility company pursuant to plan of recapitalization. **Price**—To be supplied by amendment. **Underwriter**—Clement A. Evans & Co., Atlanta, Ga.

Circle Wire & Cable Corp.
Nov. 27 filed 200,000 shares of common stock (par $5). **Price**—$15 per share. **Underwriter**—Van Alstyne Noel Corp., New York. **Proceeds**—To four selling stockholders. **Offering**—Expected after Jan. 1, 1951.

• Clinton Foods, Inc.
Dec. 12, it was announced stockholders on Jan. 15 will vote on increasing the authorized common stock (par $1) from 1,500,000 to 2,000,000 shares the increase to provide "substantial funds for capital additions and working capital," and "to provide for the conversion of 100,000 shares of unissued and unreserved 4½% cumulative convertible preferred stock." Probable Underwriters: Merrill Lynch, Pierce, Fenner & Beane.

Colonial Acceptance Corp.
Nov. 20 filed $1,500,000 junior subordinated sinking fund debentures due Dec. 1, 1958, and 30,000 shares of common stock (par $1), to be offered in units of $500 of debentures and 10 shares of stock. **Price**—$500 per unit. **Underwriters**—Straus & Blosser; and Sills, Fairman & Harris; both of Chicago, Ill. **Proceeds**—To reduce bank loans.

• Commonwealth Edison Co., Chicago, Ill.
Dec. 13 filed $49,000,000 of sinking fund debentures due April 1, 2001. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co.; Morgan Stanley & Co. **Proceeds**—Toward cost of $370,000,000 four-year construction program.

Community Finance Corp., N. Y. City
Nov. 15 (letter of notification) 20,000 shares of common stock (no par) and 4,000 shares of 7% non-cumulative preferred stock (par $10). Price — $12.50 per share. **Underwriter** — None. **Proceeds** — For working capital. Office—2340 Eighth Ave., New York 27, N. Y.

Consumers Cooperative Association, Kansas City, Mo.
Nov. 14 filed $1,000,000 of 5-year 3½% certificates of indebtedness and $2,000,000 of 10-year 4½% certificates of indebtedness to be offered to members of the Association and "to others." **Underwriter**—None. **Proceeds**—To be added to general funds. **Business**—Farmers' cooperative wholesale purchasing association of the federated type. **Price**—At 100 issuable in multiples of 100. Statement effective Dec. 7.

Continental Engineering Co., Carrizozo, N. M.
Nov. 29 (letter of notification) 490,000 shares of common stock. **Price**—At par (50 cents per share). **Underwriter**—None. **Proceeds**—For working capital. **Address**—P. O. Box 56, Carrizozo, N. M.

• Cosmopolitan Hotel Co. of Dallas, Tex.
Dec. 13 filed $1,500,000 of 2% debentures due 1965. **Price**—At face value. **Underwriter**—None. **Proceeds**—To purchase debentures of Statler Dallas Co., Inc., which company will construct Dallas hotel. **Business**—A non-profit corporation under sponsorship of Dallas Chamber of Commerce to secure construction of hotel.

• Courtland Manufacturing Co.
Dec. 11 (letter of notification) 12,000 shares of 6% cumulative preferred stock. **Price**—At par ($25 per share). **Underwriter**—Heimerdinger & Straus, New York. **Proceeds**—For working capital. **Office**—6th and Jefferson Streets, Camden, N. J.

Culver Corp., Chicago, Ill.
Oct. 23 filed 132,182 shares of common stock (par $5), of which 4,818 shares are to be offered to stockholders and 127,364 shares to public. **Price** — To stockholders at $5 per share and to public at $6.25 per share. **Underwriter**—None. **Proceeds**—For investments.

• Curtis Publishing Co.
Dec. 8 (letter of notification) 500 shares of common stock. **Price**—At the market (approximately $8.25 per share. **Underwriter**—Hecker & Co., Philadelphia, Pa. **Proceeds**—To Cary W. Bok, Vice-President, the selling stockholder.

Daily Reporter, Inc., Tuscon, Ariz.
Nov. 22 (letter of notification) 1,500 shares of preferred stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For equipment and operating expenses.

Dansker Realty & Securities Corp., N. Y. City
Nov. 20 filed 300,000 shares of 6% cumulative convertible preferred stock (par $5) and 300,000 shares of class B common stock (par 35 cents) to be offered in units of one preferred and one class B share "on a best-efforts basis." An additional 25,000 shares of each class of stock are to be issued to underwriters as additional compensation for resale to public. There will be reserved for conversion of the preferred stock 1,300,000 shares of class B common stock. **Price**—$6 per unit. **Underwriter**—Dansker Bros. & Co., Inc., New York. **Proceeds** — For working capital. **Offering**—Expected after the first of the year.

Dow Chemical Co. (1/3/51)
Nov. 10 filed 200,000 shares of common stock (par $15), of which a maximum of 125,000 shares will be offered to common stockholders of record Dec. 21, 1950 at rate of 1 share for each 50 shares held, the remaining 75,000 shares to be offered for subscription by employees up to 10% of their annual wages on a payroll deduction plan. Both offerings will terminate on Jan. 29, 1951 and are expected to be made on Jan. 3, 1951. **Price**—To be supplied by amendment. **Underwriter**—None. **Proceeds**—For working capital.

Drayer-Hanson, Inc., Los Angeles, Calif.
Oct. 3 (letter of notification) 255,033 shares of common stock offered to stockholders on a pro rata basis; rights expire Dec. 15, 1950. **Price**—At par (40 cents per share). **Underwriter**—None. **Proceeds**—To pay creditors' claims and for working capital. **Address**—P. O. Box 2215, Los Angeles, Calif.

Duggan's Distillers Products Corp.
Oct. 27 (letter of notification) 340,000 shares of common stock (par 10c). **Price**—75 cents per share. **Underwriter**—Olds & Co., Jersey City, N. J. **Proceeds**—To pay balance of purchase price for building ($20,000) and for working capital.

Duriron Co., Inc., Dayton, Ohio
Nov. 22 filed 40,000 shares of cumulative preferred stock (par $25), with common stock purchase warrants attached for 40,000 shares of common stock, exercisable at $16 per share through Dec. 1, 1960. **Price**—To be supplied by amendment. **Underwriter**—Lee Higginson Corp., New York. **Proceeds**—For payment of notes and for general funds. **Offering**—Expected today (Dec. 14).

• Eastern Corp., Bangor, Me.
Dec. 4 (letter of notification) 2,500 shares of common stock (par $10). **Price**—At about market ($20.50 per share). **Proceeds**—To Central National Corp. of New York, the selling stockholder.

• El Paso Electric Co.
Dec. 12, it was announced the company has applied to the FPC for authority to issue and sell $4,500,000 of first mortgage bonds due Dec. 1, 1980. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Stone & Webster Securities Corp.; Merrill Lynch, Pierce, Fenner and Beane; Salomon Bros. & Hutzler; Kidder, Peabody & Co.; Equitable Securities Corp. **Proceeds**—To redeem $1,000,000 of 3½% bonds due 1978 and for construction program.

Eureka Telephone Co., Corydon, Ind.
Nov. 27 (letter of notification) 1,700 shares of common stock to be offered to company's telephone subscribers. **Price**—At par ($25 per share). **Underwriter**—None. **Proceeds**—For cash equity to secure loan allocation by Rural Electrification Administration.

Fedders-Quigan Corp.
June 21 filed 103,402 shares of series A cumulative convertible preferred stock (par $50) to be offered to common stockholders on basis of one preferred share for each 12 shares held. **Price**—To be filed by amendment, along with dividend rate. **Underwriter**—Smith, Barney & Co., New York. **Proceeds**—To pay promissory note, to complete purchase of a new plant at El Monte, Calif., and for additional working capital. Statement may be withdrawn. It was reported on Oct. 5 that company has completed purchase of El Monte plant.

Felters Co., Boston, Mass.
Nov. 14 (letter of notification) 1,750 shares of common stock (par $10). **Price** — At market (estimated at not more than $10 per share). **Underwriter** — H. C. Wainwright & Co., Boston, Mass. **Proceeds**—To two selling stockholders. **Office**—210 South St., Boston, Mass.

Fluor Corp., Ltd., Los Angeles, Calif.
Nov. 24 filed 100,000 shares of capital stock (par $2.50). **Price** — To be supplied by amendment. Underwriter—William R. Staats Co., Los Angeles, Calif. **Proceeds**—To trustees of two employees' benefit funds established by the company. **Offering**—Expected today (Dec. 14).

• General Racing Corp., Providence, R. I.
Dec. 6 (letter of notification) 12,000 shares of common stock and 10,000 shares of preferred stock. **Price**—For common, $2 per share and for preferred, $10 per share. **Underwriter**—None. **Proceeds**—For operating stables, buying, selling, trading, etc. in racing horses. **Office**—818 Industrial Trust Building, Providence, R. I.

Greenwich Gas Co., Greenwich, Conn.
Sept. 1 (letter of notification) 8,000 shares of $1.50 preferred stock (no par) and 9,777 shares of common stock (no par), to be offered first to stockholders. **Price**—Of preferred, $25 per share, and common $10 per share. **Underwriter**—F. L. Putnam & Co., Boston, Mass. **Proceeds**—To retire bank loan and for working capital. **Financing Postponed**—On Dec. 1 company stated a new financing plan is being prepared and will be submitted to stockholders.

Hamilton Fire Insurance Co., Philadelphia
Oct. 2 (letter of notification) 64,000 shares of capital stock (par $5). **Price**—$4.50 per share. **Underwriter**—Jenks, Kirkland & Co., Philadelphia, Pa. **Proceeds**—To increase capital and surplus in order to offer additional lines of insurance, including automobile casualty and liability coverage. Financing may be abandoned.

Hammond Lumber Co., San Francisco, Calif.
Nov. 17 (letter of notification) 7,000 shares of capital stock (par $20). **Price**—$42.50 per share. **Underwriter**—None. **Proceeds** — For working capital. **Office** — 417 Montgomery St., San Francisco, Calif.

Continued on page 100

Continued from page 99

Hearn Department Stores, Inc., N. Y. City
Nov. 17 filed 40,000 shares of 5% cumulative convertible preferred stock, to be offered for subscription by common stockholders on the basis of one preferred share for each seven shares of common stock held. **Price**—At par ($25 per share). **Underwriter**—None. **Proceeds** — From this offering, plus a $2,000,000 term bank loan, to be used to repay bank loans, for improvements to properties and for working capital.

Honolulu Oil Corp. (12/20)
Dec. 1 filed 120,000 shares of capital stock to be offered to present stockholders. **Price**—To be filed by amendment. **Underwriter**—Dean Witter & Co., San Francisco, Calif. **Proceeds**—To selling stockholders.

Hooper Telephone Co., Hooper, Neb.
Aug. 18 (letter of notification) $30,000 of 3¾% bonds due 1970. **Price**—In excess of 102%. **Underwriter**—Wachob Bender Corp., Omaha, Neb. **Proceeds**—To retire temporary loans.

● **Horseshoe Basin Mining & Development Co.**
Dec. 1 (letter of notification) 75,000 shares of common stock. **Price**—75 cents per share. **Principal Underwriters**—R. O. Johnson of Bremerton, Wash; H. F. Arnold of Tacoma, Wash.; and Max McKinley of Spokane, Wash. **Proceeds**—For development and equipment. **Office**—245 4th Street Building, Bremerton, Wash.

Hub Loan Co., Jersey City, N. J.
Sept. 18 (letter of notification) 100,000 shares of 18 cents cumulative convertible preferred stock (par $2). **Price**—$3 per share. **Proceeds**—For working capital.

Infra Roast, Inc., Boston, Mass.
Nov. 3 (letter of notification) 207,000 shares of common stock to be initially offered to stockholders; unsubscribed shares to public. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—To finance the purchase of 100 automatic coffee-roasting machines. **Office**—84 State St., Boston, Mass.

● **Jewel Tea Co., Inc.**
Nov. 30 (letter of notification) 4,750 shares of common stock (no par) to be offered to employees. **Price**—To be $2 per share less than the closing price on the New York Stock Exchange on day agreement to purchase is consummated (estimated price is $61.75 per share). **Proceeds**—For general corporate purposes. **Office**—Jewel Park, Barrington, Ill.

Kaye-Halbert Corp.
Oct. 6 by amendment filed 120,000 shares of class A convertible common stock (par $1). **Price**—$5 per share. **Underwriter**—Sills, Fairman & Harris, Inc., Chicago, Ill. **Proceeds**—To pay off promissory notes and for working capital.

● **Lincoln Service Corp., Washington, D. C.**
Dec. 12 filed 80,000 shares of $1.50 cumulative preferred stock (no par—with stated value of $22.50 per share), with warrants attached entitling the holder to purchase common stock at $12 per share in the ratio of two common shares for each five preferred shares held. Of said 80,000 shares, 46,950 shares are to be offered in exchange for outstanding 7% prior preferred stock (par $50) and 6% participating preferred stock (par $25) on the following basis: (1) For each 7% prior preferred share two new preferred shares; and (2) For each 6% participating preferred share one share of new preferred stock—plus in each case accrued and unpaid dividends and redemption premiums, in cash. The remaining 33,050 shares are to be publicly offered. **Price**—$25 per share. **Underwriter**—Johnston, Lemon & Co., Washington, D. C. **Proceeds**—For working capital and to redeem unexchanged old preferred stock.

Lit Brothers, Philadelphia, Pa.
Nov. 17 (letter of notification) approximately 7,500 shares of common stock or such number, more or less, which shall not exceed $100,000 at the aggregate sales price. **Price**—Estimated at $13.25 per share. **Underwriter**—None, but one or more of following brokers may be employed: Newburger & Co.; Hallowell & Sulzberger; Reynolds & Co.; and Elkins Morris & Co. **Proceeds**—To Bankers Securities Corp., Philadelphia, Pa.

Lorain Telephone Co.
Oct. 5 (letter of notification) 2,830 shares of common stock (no par) offered to common stockholders of record Oct. 7 on a pro rata basis; rights expire Dec. 15. **Price**—$20 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—203 9th St., Lorain, Ohio.

Lytton's, Henry C. Lytton & Co.
Nov. 17 filed 83,000 shares of common stock (par $1). **Price** — To be supplied by amendment. **Underwriter**—Blunt Ellis & Simmons, Chicago, Ill. **Proceeds**—To the executors of the estate of Henry C. Lytton. **Offering**—Postponed. May be placed privately.

Macy (R. H.) & Co., Inc (12/20)
Dec. 1 filed 111,692 shares of common stock (no par). **Price**—To be related to the existing market price at time of offering. **Underwriter**—Lehman Brothers. **Proceeds**—To selling stockholders.

● **Magnolia Lead & Oil Co., Salt Lake City, Utah.**
Dec. 6 (letter of notification) 300,000 shares of capital stock. **Price**—At par (10c per share). **Underwriter**—Cromer Brokerage Co., Salt Lake City. **Proceeds**—To develop uranium oxide ore properties. **Office**—328 Atlas Bldg., Salt Lake City.

Mascot Mines, Inc., Kellogg, Ida.
Oct. 27 (letter of notification) 400,000 shares of capital stock. **Price**—37½ cents per share. **Underwriter**—Standard Securities Corp., Spokane, Wash. **Proceeds**—To purchase controlling interest in Pine Creek Lead-Zinc Mining Co., for development costs and working capital.

NEW ISSUE CALENDAR

December 14, 1950	
St. Louis-San Francisco Ry. Noon (EST)	Equip. Trust Ctfs.
December 15, 1950	
Chattanooga Gas Co.	Common
Miles Shoes, Inc.	Common
Vitro Manufacturing Co.	Common
December 18, 1950	
Webster-Chicago Corp.	Common
December 19, 1950	
Western Pacific RR., 1 p.m. (EST)	Bonds
December 20, 1950	
Honolulu Oil Corp.	Common
Macy (R. H.) & Co., Inc.	Common
January 3, 1951	
Dow Chemical Co.	Common
January 23, 1951	
Southern Natural Gas Co.	Bonds

● **Massachusetts Hospital Life Insurance Co., Boston, Mass.**
Dec. 5 (letter of notification) 2,300 units of beneficial interest of Hospital Life Trust. **Price**—At net asset value, currently about $120 per unit. **Underwriter** — None. **Proceeds**—For working capital.

McCormick & Co., Inc., Baltimore, Md.
Nov. 22 (letter of notification) 1,000 shares of 5% cumulative preferred stock (par $100), 4,500 shares of non-voting common stock (no par) and 4,590 shares of voting common stock (no par). **Price**—The preferred at par and the common at the market (approximately $22 per share). **Underwriter**—Alex. Brown & Sons, Baltimore, Md. **Proceeds**—For working capital. **Office**—414 Light Street, Baltimore 2, Md.

Mercantile Acceptance Corp. of California
Oct. 5 (letter of notification) 1,395 shares of first preferred stock, 5% series. **Price**—At par ($20 per share). **Underwriter**—Guardian Securities Corp. of San Francisco. **Proceeds**—For corporate purposes. **Office**—333 Montgomery Street, San Francisco, Calif.

● **Mercantile Acceptance Corp. of California**
Dec. 5 (letter of notification) 1,500 shares of first preferred stock, 5% series, of which 1,000 shares are to be offered as a bonus to employees only and 500 shares to be offered to employees on an instalment basis. **Price**—At par ($20 per share). **Proceeds**—For general corporate purposes. **Office**—333 Montgomery St., San Francisco, Calif.

● **Meyenberg Milk Products Co., San Francisco, California**
Dec. 4 (letter of notification) 9,710 shares of common stock to be offered to common stockholders of record Nov. 24. **Price**—$20 per share. **Underwriter**—None. **Proceeds**—To purchase and operate new facilities. **Office**—235 Montgomery Street, San Francisco, Calif.

Middlesex Water Co., Newark, N. J.
Feb. 9 (letter of notification) 5,200 shares of common stock offered to common stockholders at $50 per share on a one-for-five basis. Underwriter—Clark, Dodge & Co. Proceeds—To pay notes and for additional working capital. Indefinitely postponed.

Miles Shoes, Inc., New York City (12/15)
Nov. 20 filed 77,400 shares of common stock (par $1). **Price**—To be supplied by amendment. **Underwriter**—Wertheim & Co. and Lehman Brothers. **Proceeds**—To two selling stockholders.

Mission Appliance Corp., Hawthorne, Calif.
July 24 filed 50,000 shares of 6% cumulative convertible preferred stock. Price—At par ($20 per share). Underwriter—Lester & Co., Los Angeles, Calif. Proceeds—To retire bank loans and install machinery and equipment in a proposed new plant to be located east of the Rocky Mountains. Business—Manufacturer of gas and electric water and space heaters.

Muntz Car Co., Evanston, Ill.
Nov. 29 (letter of notification) 300,000 shares of common stock (no par) to be sold to a group of 20 individuals. **Price**—$1 per share. **Underwriter**—None. **Proceeds**—For operating capital, and to complete purchase of tools, dies and inventory from Kurtis-Kraft, Inc. **Office**—1000 Grey Ave., Evanston, Ill.

● **Nesco, Inc., Milwaukee, Wis.**
Dec. 1 (letter of notification) 30,000 shares of common stock (par $5), to be offered for subscription by employees and officers of the company. **Price**—To be $1 per share less than the last sale price on the New York Stock Exchange on day next preceding date of offering or of stockholders' meeting, at which plan of sale is adopted, whichever is lower. **Proceeds**—For additional treasury funds so additional receivables and inventories can be carried. **Office**—270 No. 12th Street, Milwaukee, Wis.

New Bedford Gas & Edison Light Co.
Nov. 28 (letter of notification) 17,717 4/5 shares of common stock (par $25), being offered to stockholders of record Oct. 20 on basis of one share for each 15 shares held; warrants evidence right to subscribe during period Dec. 5 to Dec. 20. New England Gas and Electric Association owning 97.37% of outstanding stock has agreed to purchase 17,254.2 shares and all unsubscribed shares. **Price**—$67.50 per share. **Underwriter**—None. **Proceeds**—To reimburse plant replacement fund for construction expenses.

● **Otter Tail Power Co., Fergus Falls, Minn.**
Dec. 5 (letter of notification) 4,990 shares of common stock (par $5). **Price**—At approximately market (about $18.75 per share). **Underwriters**—Kalman & Co., St. Paul, Minn.; Glore, Forgan & Co., Chicago, Ill.; and W. R. Olson Co., Fergus Falls, Minn. **Proceeds**—To Thomas C. and Cyrus G. Wright, executors of the will of Grace Clark Wright (deceased).

Pennsylvania Salt Manufacturing Co.
Nov. 15 filed 124,879 shares of common stock (par $10) being offered to common stockholders of record Dec. 6 on basis of one share for each seven shares held; rights will expire on Dec. 22. **Price**—$45 per share. **Underwriter**—None. **Proceeds**—For improvement and expansion of plant facilities.

● **Pittsburgh-Des Moines Steel Co.**
Dec. 5 (letter of notification) 20,000 shares of beneficial interest in company's Employees' Trust Fund (stated value $10 per share). **Price**—$15 per share. **Proceeds**—For working capital. **Office**—Neville Island, Pittsburgh 25, Pa.

Providence Washington Insurance Co.
Nov. 10 filed 80,000 shares of cumulative convertible preferred stock (par $10) being offered to common stockholders of record Dec. 4 on basis of one preferred share for each five common shares held; rights will expire Dec. 19. **Price** — $52 per share. **Underwriters**—The First Boston Corp. and Wood, Struthers & Co., both of New York, and Brown, Lisle & Marshall of Providence, R. I. **Proceeds**—To be added to general funds.

Ramie Products Corp.
Sept. 21 (letter of notification) 25,000 shares of common stock (par $1). **Price**—$3 per share. **Underwriter**—Smith, Talbott & Sharpe, Pittsburgh, Pa. **Proceeds**—For purchase of additional machinery and equipment and working capital. **Office**—507 Liberty Avenue, Pittsburgh 22, Pa.

● **Robin Hood Productions, Los Angeles, Calif.**
Dec. 4 (letter of notification) 3,600 shares of class A preferred stock (par $5) and 3,600 shares of class B common stock (par $1.25) to be offered in units of one class A and one class B share, plus an additional 3,600 class B shares. **Price**—$6.25 per unit, and $1.25 per class B share. **Underwriter**—None. **Proceeds**—To produce two pictures on 16 mm. film for display on television. **Office**—714 West Olympic Boulevard, Los Angeles 15, Calif.

Scott Paper Co., Chester, Pa.
Dec. 5 filed 23,529 shares of common stock (no par) to be offered to employees of the company under its "Employees' Stock Purchase Plan for 1951." The company anticipates a maximum of 5,000 memberships in the plan under which any eligible employee may subscribe for an amount up to but not exceeding 10% of his weekly earnings.

● **Shattuck Denn Mining Corp.**
Dec. 8 (letter of notification) 597 shares of capital stock (par $5). **Price**—At the market (approximately $5 per share). **Underwriter**—Harris, Upham & Co., New York. **Proceeds**—For general corporate purposes.

South State Uranium Mines Ltd., Toronto, Canada
Nov. 30 filed 560,000 shares of capital stock. **Price**—At par ($1 per share). **Underwriter-Optionee**—Robert Irwin Martin of Toronto. **Proceeds**—For commissions, exploration and development expenses, and working capital.

South West Box Co., Keokuk, Iowa
Nov. 27 (letter of notification) $200,000 10-year 6% subordinated instalment debenture bonds. **Price**—To be sold in multiples of $100 plus accrued interest. **Underwriter**—None. **Proceeds**—For corrugated machine.

Southeastern Telephone Co., Tallahassee, Fla.
Nov. 20 (letter of notification) 10,000 shares of common stock (par $10). **Price**—$11.25 per share. **Underwriter**—Wagner, Reid & Ebinger, Louisville, Ky. **Proceeds**—For construction and improvement.

Southern Discount Co., Atlanta, Ga.
Sept. 18 (letter of notification) $191,500 of 5% subordinated debentures, series E. **Price**—At par. **Underwriter**—For $100,000 of debentures, Allen & Co., Lakeland, Fla. **Proceeds**—To reduce bank loans and for working capital. **Office**—220 Healey Bldg., Atlanta, Ga.

Southern Insurance, Inc., Atlanta, Ga.
Nov. 2 (letter of notification) 30,000 shares of common stock. **Price**—At par ($10 per share). **Underwriter**—None. **Proceeds**—To purchase stock in Southern Fire & Marine Insurance Co. and to reduce debt. **Office**—79 Ponce De Leon Ave., N. E., Atlanta, Ga.

● **Sun Valley Lead-Silver Mines, Inc.**
Dec. 1 (letter of notification) 200,000 shares of capital stock (par 10 cents). **Price**—25 cents per share. **Underwriter**—None. **Proceeds**—To complete construction of a mill. **Address**—P. O. Box 545, Hailey, Idaho.

● **Sunshine Packing Corp. of Pennsylvania**
Dec. 8 (letter of notification) 2,950 shares of 5% preferred stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For additional operating capital. **Office**—Smedley Street, North East, Pa. **Business**—Processes and cans frozen fruits and fruit juices.

Texas Engineering & Manufacturing Co., Inc.
Nov. 21 (letter of notification) unspecified number of shares of common stock (par $1) to amount to $100,000 at current market value. **Price**—Estimated at $5 to $6 per share. **Underwriter**—None, but will be sold through Beer & Co., Thomson & McKinnon, Dallas Rupe & Son

and Shearson, Hammill & Co., all of Dallas, Texas. **Proceeds**—To H. L. Howard and Robert McCulloch, officials of the company.

Texas Illinois Natural Gas Pipeline Co.
Nov. 20 filed 300,000 shares of common stock (par $1), to be offered to common stockholders of record Dec. 8 on the basis of one new share for each 7½ shares held. (Peoples Gas Light & Coke Co., owner of approximately 51% of outstanding common stock, will subscribe for its proportionate share of new stock, plus any other unsubscribed shares. Rights will expire on Dec. 28. **Price**—$10 per share. **Underwriters**—Probably White, Weld & Co.; A. C. Allyn & Co., Inc.; Bacon, Whipple & Co., et al. **Proceeds**—To finance proposed pipeline from Texas to Chicago. Statement effective Dec. 8.

Vitro Manufacturing Co. (12/15)
Dec. 4 (letter of notification) 30,000 shares of common stock (par $1) to be offered to common stockholders of record Dec. 15 on basis of one new share for each 5.64 shares held; rights to expire Jan. 2. **Price**—$10 per share. **Underwriter**—None. **Proceeds**—For initial working capital of Vitro Chemicacl Co., Inc., a subsidiary, to be formed in December, 1950, to acquire and operate a plant in Salt Lake City, Utah, for the processing of uranium and manganese ores. **Office**—60 Greenway Drive, Corliss Station, Pittsburgh 4, Pa.

Vulcan Extension, Inc., Wallace, Idaho
Nov. 27 (letter of notification) 250,000 shares of capital stock (par 20 cents). **Price**—31 cents per share. **Underwriter**—J. A. Hogle & Co., Spokane, Wash. **Proceeds**—For initial working capital for ore development. **Address**—c/o H. J. Hull & Sons, Wallace, Idaho.

Webster-Chicago Corp. (12/18-19)
Nov. 24 filed 103,158 shares of common stock (par $1). **Price**—To be supplied by amendment. **Underwriter**—F. Eberstadt & Co., Inc., New York, and Shillinglaw, Bolger & Co., Chicago. **Proceeds**—To finance acquisition of plant site and for construction. **Offering**—Expected early part of next week.

● **Wel-Met Co., Kent, Ohio**
Nov. 30 (letter of notification) 7,500 shares of common stock (par 5c). **Price**—$10 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—110 Gougler Avenue, Kent, Ohio.

Westerly (R. I.) Automatic Telephone Co.
Dec. 1 (letter of notification) 7,000 shares of common stock to be offered to stockholders of record Dec. 9, 1950, of which total 4,434 shares will be subscribed for by New England Telephone & Telegraph Co. **Price**—At par ($25 per share). **Underwriter**—None. **Proceeds**—For general corporate purposes. **Office**—38 Main St., Westerly, Rhode Island.

● **Western Casualty & Surety Co., Kansas City, Missouri**
Dec. 5 (letter of notification) 5,000 shares of capital stock (par $10). **Price**—$50 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—916 Walnut Street, Kansas City, Mo.

● **Western Gold Mines, Inc., Carson City, Nev.**
Dec. 4 (letter of notification) 25,000 shares of common stock (par 10c). **Price**—$1.50 per share. **Underwriter**—Ingalls & Snyder, New York. **Proceeds**—For development of ore bodies in Golden Crown Mining Co. and for working capital. **Office**—First National Bank Building, Carson City, Nev.

Western Light & Telephone Co., Inc.
Nov. 6 (letter of notification) 14,870 shares of common stock (par $10), being offered to common stockholders of record Dec. 4 on a 1-for-20 basis (with an oversubscription privilege); rights expire Dec. 19. **Price**—$20 per share. **Underwriter**—None, but Harris, Hall & Co. (Inc.) and First Trust Co. of Lincoln, Neb., will act as dealer-managers. **Proceeds**—For construction program.

Wilcox-Gay Corp., Charlotte, Mich.
Oct. 25 filed 500,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Underwriters**—Gearhart, Kinnard & Otis, Inc., New York, N. Y., and White & Co., St. Louis, Mo. **Proceeds**—To pay obligations to all unsecured creditors.

Prospective Offerings

Algonquin Gas Transmission Co.
Nov. 8 the FPC said it was of the opinion that certain of the New England markets should be served by this company, upon showing that it has an adequate amount of gas. Necessary financing, probably about $40,000,000, likely to be 75% bonds and 25% stock, with common stock to be offered first to stockholders. Probable underwriter: Dillon, Read & Co. Inc.

American Bosch Corp.
Nov. 22 it was announced stockholders will vote Dec. 18 on creating a new issue of 40,000 shares of 5% cumulative preferred stock (par $100), to be issued in series. Of this issue, it is proposed to place privately with a group of insurance companies 16,500 shares of series A preferred, the proceeds to be used to redeem all of the presently outstanding 16,336 shares of 5% cumulative preferred stock.

Capital Plastics, Inc.
Nov. 28, it was announced that it is planned to offer common stockholders of Rochester Button Co. rights to subscribe for 131,025 shares of capital stock on the basis of one share of capital stock for each present share of Rochester Button stock held as of record Dec. 18, 1950; rights to expire about Jan. 16. **Price**—$1 per share. **Proceeds**—To acquire Techperl and Brodhead Divisions of Rochester Button Co., which are engaged in plastic operations. **Offering**—Rights expected to be mailed early in January, 1951.

● **Carolina Power & Light Co.**
Dec. 4 it was reported company plans issuance of $15,000,000 new first mortgage bonds. **Underwriters** — If named by competitive bidding, probable bidders are: Halsey, Stuart & Co. Inc.; W. C. Langley & Co. and First Boston Corp. (jointly); Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Lehman brothers; Equitable Securities Corp.; Smith, Barney & Co. **Proceeds**—For construction program. **Bids**—Expected first week in February.

Carpenter Steel Co.
Oct. 30 stockholders voted to increase the authorized common stock, par $5, from 500,000 shares to 1,000,000 shares (there are presently 396,000 shares outstanding). The management has no present plans to issue any additional common stock. Traditional underwriters: F. S. Moseley & Co.; White, Weld & Co.; Hemphill, Noyes, Graham, Parsons & Co., and H. M. Byllesby & Co., Inc.

Chesapeake & Ohio Ry.
Dec. 4 it was reported company contemplates issuance of $7,500,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler. **Bids**—Expected in January.

● **Columbia Gas System, Inc.**
Dec. 7 it was reported that corporation may issue and sell $35,000,000 of new securities in the Spring or early summer. Probable bidders for debentures: Halsey, Stuart & Co. Inc.; Morgan, Stanley & Co.; Kuhn, Loeb & Co.; Salomon Bros. & Hutzler; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly). Probable bidders for common stock, in event of competitive bidding: Morgan Stanley & Co.; Goldman, Sachs & Co. and Union Securities Corp. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Lehman Brothers; Shields & Co. and R. W. Pressprich & Co. (jointly). Proceeds will be used for expansion program.

Consolidated Gas Electric Light & Power Co. of Baltimore
Nov. 24 it was announced company plans to register with the SEC by the end of December a proposed offering of $25,000,000 new bonds. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp. and White, Weld & Co. (jointly); Harriman Ripley & Co. Inc. and Alex. Brown & Sons (jointly); Kuhn, Loeb & Co. **Bids**—Expected to be invited during the latter part of January.

Emerson Electric Manufacturing Co.
Nov. 20 it was reported that the company was said to be considering the sale of an issue of convertible preferred stock first to stockholders on about a 1-for-8 basis. Probable underwriters: Smith, Barney & Co.; Van Alstyne, Noel & Co.; Newhard, Cook & Co. **Registration**—Expected about Dec. 29.

Facsimile & Electronics, Inc.
Oct. 2 stockholders of this company (formerly Finch Telecommunications, Inc.) voted to create an authorized issue of 400,000 shares of class A convertible stock (par $1), all or part of which are to be publicly offered in the near future. **Price**—$2.50 per share. **Underwriter**—Graham, Ross & Co., Inc., New York. **Proceeds**—To repay indebtedness to RFC and for working capital.

Firth Carpet Co.
Nov. 30 it was announced stockholders will vote Dec. 20 on creating an authorized issue of 30,000 shares of new preferred stock (par $100), of which it is initially planned to issue and sell 10,000 shares to provide additional working capital. Traditional underwriter: Reynolds & Co., New York.

Foote Mineral Co.
Nov. 20 company said it may sell during 1951 some additional common stock following proposed 200% stock distribution on March 1, 1951. Traditional underwriter: Estabrook & Co., New York.

● **Kansas-Nebraska Natural Gas Co.**
Nov. 24 company applied to the FPC for permission to increase capacity from 146,000,000 cubic feet to 164,200,000 cubic feet daily at an estimated cost of $5,201,331, to be financed by bonds, preferred and common stocks. Bonds may be placed privately through Central Republic Co., Chicago. Probable underwriters for the stocks are Cruttenden & Co., Chicago, and First Trust Co. of Lincoln, Neb.

Lone Star Steel Corp.
Nov. 12, it was reported that company may issue and sell additional securities should it receive government consent to the building of a new plant. Probable underwriters: Straus & Blosser; Estabrook & Co., and Dallas Rupee & Son.

● **Marion Power Shovel Co.**
Dec. 8, the company announced it plans the sale of additional common stock (par $5) so as to add approximately $500,000 to equity capital, such shares to be first offered to present common stockholders on a pro rata basis. **Registration**—Expected to be effected in February, 1951. **Proceeds**—The net proceeds from the sale of the stock, together with proceeds from a proposed term loan of approximately $2,500,000 with banks and an insurance company, will be used to refund $1,175,000 bank loans, payment of preferred dividend arrearages of $1,501,500, and the balance for working capital.

● **Minnesota Power & Light Co.**
Dec. 6, Clay C. Boswell, President, announced that the company expects to raise about $10,000,000 through the sale of new securities within the next year or so. The financing may be either in the form of bonds or preferred stock. The proceeds will be used for the company's expansion program. Probable bidders for bonds may include Halsey, Stuart & Co. Inc.; Shields & Co.; The First Boston Corp. and Glore, Forgan & Co. (jointly); Otis & Co.; White, Weld & Co.; Lehman Brothers and Drexel & Co. (jointly); Union Securities Corp.; Kidder, Peabody & Co.; Coffin & Burr, Inc.

Mississippi River Fuel Corp., St. Louis, Mo.
Oct. 4 it was announced that plans to finance the installation of additional compressor units on the company's pipeline system in Arkansas and Missouri will be supplied later. The estimated cost of the new facilities is $5,500,000. Previous bond financing was arranged for privately through Union Securities Corp., who also acted as underwriter for a common stock issue in April of this year.

Monarch Machine Tool Co.
Nov. 9, it was announced that stockholders will vote Dec. 20 on a plan to increase the authorized common stock from 250,000 shares to 750,000 shares and splitting up the present 210,000 outstanding shares on a two-for-one basis. If any new financing, probable underwriters will include F. Eberstadt & Co., Inc., of New York, and Prescott, Hawley, Shepard & Co., Inc., of Cleveland, Ohio.

Monongahela Power Co.
Dec. 1 it was announced company plans issuance and sale of $10,000,000 of new bonds. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Equitable Securities Corp.; W. C. Langley & Co. and The First Boston Corp. (jointly); Union Securities Corp.; Salomon Bros. & Hutzler; Lehman Brothers; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Glore, Forgan & Co. **Proceeds**—For expansion program. **Offering**—Expected in March, 1951.

Montana-Dakota Utilities Co.
Oct. 11 company asked FPC for authority to issue $2,800,000 of 2½% promissory notes to banks to provide funds for its expansion program. These notes, together with $3,000,000 of notes authorized by FPC last May, are to be refunded by permanent financing before April 1, 1951. Traditional underwriters are Blyth & Co., Inc. and Merrill Lynch, Pierce, Fenner & Beane. Stockholders on Nov. 27 will vote on increasing authorized preferred stock from 100,000 to 150,000 shares and common stock from 1,500,000 to 2,500,000 shares. R. M. Heskett, President, stated that about $10,000,000 will be raised within the next six months.

Nevada Natural Gas Pipe Line Co.
Nov. 15 company asked FPC to authorize construction and operation of a 114-mile pipeline for the transportation of natural gas, which, it is estimated, will cost $2,331,350.

● **New York Central RR.**
Dec. 11 the company was said to be preparing to issue $7,500,000 of equipment trust certificates after the turn of the year. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

● **New York, Chicago & St. Louis RR.**
Dec. 8 Lynne L. White, Chairman, announced that the company plans to offer 33,770 shares of common stock at the rate of one new share for each ten common shares held, subject to the approval of the ICC. The offering price to be fixed later, will be below the market price prevailing at the time of offering.

Niagara Gas Transmission Ltd. (Canada)
Oct. 20, it was announced that this company, a subsidiary of Consumers' Gas Co., plans to build a pipe line in Canada to export from Tennessee Gas Transmission Co. Texas natural gas by way of the Niagara border. The total cost of the project is estimated at $6,000,000, of which $2,000,000 will be represented by 400,000 shares of capital stock, par $5, and $4,000,000 to be raised by the issue of bonds.

Niagara Mohawk Power Corp.
Oct. 24 the company estimated that, through 1951, it will require not more than $35,000,000 of additional debt or equity financing in connection with its 1951 construction which is expected to cost $52,328,000. This amount is in addition to the sale on Oct. 31 of $40,000,000 general mortgage bonds due Oct. 1, 1980. Probable bidders for new bonds: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co.; The First Boston Corp.

Northeastern Gas Transmission Co.
Nov. 8 FPC authorized company to supply part of New England with natural gas, and authorized Tennessee Gas Transmission Co., parent, to carry out a $118,645,545 expansion program, part of which will supply some of Northeastern's gas needs. Of the total financing, 75% will be in the form of first mortgage bonds to be placed privately with a group of life insurance companies. The remaining 25% would be obtained through the sale of equity securities. Traditional underwriters for Tennessee White, Weld & Co.; Stone & Webster Securities Corp.

Oklahoma Gas & Electric Co.
Sept. 28 a plan was filed with the SEC, which provides, in part, for the refunding of the outstanding $6,500,000 5¼% cumulative preferred stock (par $100) with an equal par amount of preferred stock having a lower dividend rate "as soon as the transaction becomes economically sound," and to finance part of the company's construction program by the issuance and sale of additional common stock. Stockholders were to vote Dec. 11 on changing each of the 1,076,900 shares of $20 common stock now outstanding to two shares of common stock, $10 par each; and on changing the 825,000 shares of authorized but unallotted shares, $20 par, of 4% cumulative preferred stock to 165,000 shares of $100 par cumulative preferred stock. Probable underwriters: Harriman Ripley & Co., Inc.; Smith, Barney & Co.; Lehman Brothers.

Pacific Lighting Corp.
Nov. 13 corporation estimated that approximately $24,000,000 will have to be raised through the sale of

Continued on page 102

Continued from page 101
securities next year to finance its 1951 construction program. Traditional underwriter: Blyth & Co., Inc.

Pennsylvania Electric Co.
Oct. 4 company was reported to be planning the issuance early next year of about $10,000,000 new bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane; Union Securities Corp. and White, Weld & Co. (jointly); Equitable Securities Corp.; The First Boston Corp.; Kuhn, Loeb & Co.; Harriman Ripley & Co., Inc. Proceeds are to be used to finance construction program.

Pennsylvania Power & Light Co.
Nov. 9 Chas. E. Oakes, President, stated the company will require about $34,900,000 of new capital over the next four years through the sale of securities. It is reported that not over 75,000 shares of series preferred stock may be sold late this year or early 1951. **Traditional Underwriters**—The First Boston Corp. and Drexel & Co. **Proceeds**—To finance, in part, the company's construction program.

Potomac Edison Co.
Dec. 1 it was announced that company plans to issue $10,000,000 of new bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; W. C. Langley & Co. and The First Boston Corp. (jointly); Kidder, Peabody & Co. and Alex. Brown & Sons (jointly); Glore, Forgan & Co.; Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc., and Union Securities Corp. (jointly). **Proceeds** — For expansion program. **Offering**—Expected in April or May, 1951.

Public Service Co. of Colorado
Nov. 1, J. E. Loiseau, President, announced that "it will be necessary to raise additional funds for construction purposes in the second quarter of 1951. The amount needed is estimated at about $7,000,000." Probable bidders for $7,000,000 of debentures which company had planned to issue earlier this year were: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. and Smith, Barney & Co. (jointly); The First Boston Corp.; Lehman Brothers; Kidder, Peabody & Co.; Harris, Hall & Co. (Inc.). This latter plan was abandoned last August.

Public Service Co. of Indiana, Inc.
Oct. 31, company estimated that, in addition to the $40,000,000 bank credit arranged with eight banks, it may be required, during the period prior to Dec. 31, 1953, to obtain additional funds of approximately $40,000,000 in order to take care of its construction program.

Reliance Electric & Engineering Co.
Nov. 22 directors voted to call a special meeting of stockholders for Jan. 18, 1951, for purpose of increasing authorized common stock from 350,000 shares (209,221 shares outstanding) to 1,000,000 shares and to effect a 2-for-1 stock split-up. The stockholders would then have preemptive rights in 531,558 of the unissued new shares while 50,000 shares would be reserved for future sale to employees and for other corporate purposes. Traditional underwriter: Hayden, Miller & Co.

St. Louis-San Francisco Ry. (12/14)
Bids will be received by the company at 120 Broadway, New York, N. Y., up to noon (EST) on Dec. 14 for the purchase from it of $5,595,000 equipment trust certificates, series H, mature in 15 equal annual instalments. Probable bidders include: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.); and Salomon Bros. & Hutzler.

● **South Atlantic Gas Co.**
Dec. 11 company sought Georgia P. S. Commission for authority to issue $3,000,000 new first mortgage bonds. May be placed privately. The proceeds will be used to repay bank loans and for expansion program.

South Jersey Gas Co
Nov. 20 an advisory report submitted to SEC provides for sale of entire holdings of United Corp. in the stock of South Jersey Gas Co. (154,231.8 shares, par $5 each.) Probable bidders: Lehman Brothers and Bear, Stearns & Co. (jointly).

Southeastern Michigan Gas Co. (Mich.)
Dec. 1 it was announced that in connection with the financing of the proposed pipeline, the acquisition of distribution facilities and the conversion of the system to natural gas, the company proposes to issue $3,300,000 of first mortgage bonds, $500,000 of 5% prior preferred stock, $200,000 of 6% cumulative preferred stock and $400,000 of common stock, subject to the approval of the Michigan P. S. Commission. The FPC authorized the company to construct natural gas pipeline facilities to serve the southeastern Michigan area.

● **Southeastern Telephone Co.**
Nov. 20 this company, a subsidiary of Central Electric & Gas Co., notified the SEC that it proposes to offer 10,000 shares of common stock (par $10). **Price**—$11.25 per share. **Underwriter**—Wagner, Reid & Ebinger, Louisville, Ky. **Proceeds**—For construction and improvement program.

Southern California Edison Co.
Sept. 27, W. C. Mullendore, President, announced that company will have to raise $50,000,000 in new capital within the next 18 months to finance its 1951 construction program. Total financing may involve $55,000,000 in new bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp. and Harris, Hall & Co. (Inc.) (jointly); Shields & Co.

Southern Indiana Gas & Electric Co.
Nov. 6, the company applied to the Indiana P. S. Commission for authority to issue and sell $3,000,000 of 30-year first mortgage bonds. Underwriters—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; First Boston Corp.; Equitable Securities Corp.; Otis & Co.; Carl M. Loeb, Rhoades & Co.; Salomon Bros. & Hutzler. Proceeds—For expansion program.

● **Southern Natural Gas Co. (1/23)**
Dec. 12 company announced it plans to file a registration with the SEC on Dec. 18 covering its proposed issue of $17,500,000 new 20-year first mortgage pipeline bonds and 155,546 additional shares of common stock (latter to be offered in latter part of January for subscription by common stockholders in ratio of one share for each 10 shares held, with an oversubscription privilege). **Price**—For stock to be filed by amendment. **Underwriters**—For bonds to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); The First Boston Corp. **Proceeds**—To be used partly to repay bank loans arranged to finance construction, and the balance applied direct to the expansion program. **Bids**—For bonds expected to be opened on Jan. 23.

Southern Union Gas Co.
Oct. 20 it was reported company plans to raise between $7,000,000 and $8,000,000 through the sale of new securities next Spring. **Underwriter** — Blair, Rollins & Co., Inc., handled the financing early this year of $18,000,000 of first mortgage 2⅞% bonds and $3,000,000 of 4¾% preferred stock (par $100). **Proceeds**—To repay $3,000,000 of bank loans and for construction expenditures.

● **Southwestern Public Service Co.**
Nov. 15, the company announced that it is anticipated that over $17,500,000 will be raised from the sale of securities in the fiscal year to end Aug. 31, 1951. It is expected that the new senior securities to be sold will consist of first mortgage bonds and preferred stock and that a portion of the cash requirements will be derived from the sale of additional common stock. The bonds and preferred stock may be placed privately. The common stock will probably be offered first to common stockholders and underwritten by Dillon, Read & Co. Inc. **Proceeds**—To be used for expansion program.

Tennessee Gas Transmission Co.
See accompanying item on Northeastern Gas Transmission Co.

● **Texas Eastern Transmission Corp.**
Dec. 6 it was announced that the company intends to issue in 1951 an estimated $20,000,000 of equity securities (probably preferred stock). **Traditional Underwriter**—Dillon, Read & Co. Inc., New York. **Proceeds**—For expansion program.

Texas & Pacific Ry.
Dec. 5 it was announced company plans to issue and sell either $3,800,000 or $4,500,000 equipment trust certificates, series I, to be dated Feb. 1, 1951. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Lee Higginson Corp.; R. W. Pressprich & Co.; Harriman Ripley & Co. Inc. and Lehman Brothers (jointly); Blair, Rollins & Co. Inc. **Expected** in January.

United Gas Corp.
Nov. 16, the Division of Public Utilities of the SEC has recommended that SEC order Electric Bond & Share Co. to dispose of its holdings of 2,870,653 shares (26.95%) of United Gas Corp. common stock. In event of competitive bidding, probable bidders may include Lehman Brothers.

United States Pipe Line Co. (Del.)
Sept. 25, it was announced that this company had been formed to build, own and operate a petroleum products pipeline from the Texas Gulf Coast to St. Louis, Chicago and other midwest markets to operate as a "common carrier." The initial financing has been arranged for privately, with no public offering expected for at least two years. E. Holley Poe and Paul Ryan, of 70 Pine St., New York, N. Y., are the principal officers of the corporation.

Utah Natural Gas Co.
Nov. 21, the company applied to the Utah P. S. Commission for permission to extend the proposed natural gas line from northeastern Utah to include additional areas in that State. The estimated cost of the project was increased to $32,000,000 (from $25,000,000 in the original application), according to John A. McGuire, President, and the length of the proposed transmission increased from 325 miles to 469 miles.

Valley Gas Pipe Line Co., Inc., Houston, Tex.
June 27 company sought FPC authorization to construct a $144,500,000 pipeline project to carry natural gas from the Gulf Coast and off-shore fields in Louisiana and Texas to markets in Indiana, Ohio and Michigan. Company is now in process of completing negotiations for its major financing requirements.

West Penn Electric Co.
Dec. 1 it was reported company plans to sell $7,000,000 of new common stock, either to the stockholders or through underwriting. If through underwriters, stock may be sold at straight competitive bidding. Probable bidders: Lehman Brothers and Goldman, Sachs & Co. (jointly); Morgan Stanley & Co.; W. C. Langley & Co. and The First Boston Corp. (jointly); Harriman Ripley & Co. Inc. **Proceeds**—For expansion program. **Offering**—Expected early in 1951.

Westcoast Transmission Co., Ltd.
Nov. 10, it was announced that Westcoast Transmission Co., Inc., its American affiliate, has filed an application with the FPC seeking authorization to construct approximately 615 miles of pipeline for the transportation of natural gas in the States of Washington and Oregon (this project is estimated to cost $25,690,000). Both companies are sponsored by Pacific Petroleums, Ltd., of Calgary, Sunray Oil Corp. and other members of the "Pacific Group" engaged in active oil and gas exploration and development in Western Canada. The completed line of both companies, to be about 1,400 miles, will, according to estimates, cost about $175,000,000, to be financed 75% by bonds and the remainder by preferred and common stock. **Underwriters**—Eastman, Dillon & Co. and The First Boston Corp.

Western Pacific RR. Co. (12/19)
Nov. 30 company applied to ICC for authority to issue and sell $22,000,000 of 30-year first and refunding mortgage bonds, dated Jan. 1, 1951. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Lehman Brothers and Bear, Stearns & Co. (jointly); Union Securities Corp. and Glore, Forgan & Co. (jointly). **Proceeds**—To redeem $10,000,000 of first mortgage 4% bonds and $6,111,300 of 4½% general mortgage convertible income bonds due 2014, and the balance used to reimburse the treasury for road improvements. **Bids** — Expected at 1 p.m. (EST) on Dec. 19.

Our Reporter's Report

The mortality rate among investment dealers around the country in the last decade apparently has been considerably greater than generally realized.

One investment banker, who keeps closely in touch with happenings in the business, was nevertheless surprised by the comparison of current numbers with those for 1940.

He had just completed an analysis of the figures for the two periods and was little short of astounded to find that there had been a decline of 26% in the number of dealers in the country's 45 largest cities in the interval.

The Red Book disclosed that for these cities, the dealer total in 1940 was 5,855 while the current issue shows the number reduced to 4,342, a drop of 1,513.

For New York City the total declined from 2,343 10 years ago to 1,866 this year, a loss of 477 or about 20.4%; Chicago was down to 307 from 434; Boston to 244 from 363; Philadelphia to 190 from 274; San Francisco to 128 from 157 and Los Angeles to 124 from 172.

Asked how this might be explained, the banker noted a variety of reasons but believed the major cause of the decline was the change in the general complexion of the investment market.

He cited competitive bidding and the concentration of sales of high-grade securities among institutional investors. If you are located close to these big buyers, he said, you may arrange a quick sale at a small profit. Most syndications, he observed do not yield enough profit to make the business attractive where a real job of distribution must be undertaken.

New Issues Lag

The new issue market is beset by uncertainty over the world outlook and the season of the year which finds the rank and file of big institutions more interested in closing their books than in looking over new material.

Unless some negotiated deals are brought along quickly, which now seems unlikely only Western Pacific Railroad's $22,000,000 of first and refunding mortgage bonds, and the large impending secondary in R. H. Macy & Co. stock remain ahead for the balance of the year.

Western Pacific's issue in scheduled for bids next Tuesday with five or six groups figuring to seek the bonds. The Macy secondary, involving 111,692 shares of common, is due about the same time.

Cleveland Union Terminals

Reports indicate that approximately $25,000,000 of Cleveland Union Terminals Co.'s $40,000,000 of 1-to-16 year serials has been sold since the offering was made last week.

Considering the spread between the bids of the two groups which sought the issue, the winner bid 99.3899 for 3¼s and the runner-up

99.422 for 3½s, progress on distribution to date is considered satisfactory.

Thus far the longer-end maturities have been most popular since the buyers have been looking for yields of better than 3.10%, it appears. The fact that the bonds have an average life of 8½ years has been in their favor.

Two Big Ones Ahead

Bankers find some balm for the impending dearth of new issues in several large prospects which loom ahead for the early part of next year.

Commonwealth Edison Co. of Chicago has disclosed plans for flotation of $49,000,000 of long-term debentures to help finance its construction program. Similar operations were completed last April and in January this year. The debentures will have a 50-year maturity.

Meanwhile Columbia Gas System Inc. contemplates raising some $35,000,000 of new capital through securities in the spring, if conditions are right, or in the summer. The company calculates it will need about $61,000,000 for the improvements and extensions it has in mind for 1951.

Washington... And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—So far as can be learned, there is nothing either above or below the surface of events here to belie the report that the Administration is approaching the controls problem with impulsive improvisation as one new grave worry after another knocks officials for a loop.

Ordinarily a declaration of a national emergency is undertaken for a specific purpose or purposes, to bring certain laws into force and to waive certain provisions of peacetime law. Incidentally, it is also proclaimed to recognize the fact of an emergency.

Extraordinary as it seems however, the idea of the declaration of a national emergency this time appeared to originate in Congress and in the Administration with officials thinking that things are just terrible and something should be done about it to arouse the public. So the scaring of the public into a mood of sacrifices appears to have been the origin of the idea of a new national emergency. Once the motive was agreed upon, then the Department of Justice was put to work burning the midnight oil to bone up on the subject of just what can the U. S. Government do with a national emergency.

Among heads which do not get so feverish on Capitol Hill, there is a feeling that if the Administration's bigwigs took the public into its confidence half as much as it does a handful of Congressmen, such a maneuver as a declaration of a national emergency would not be necessary to achieve the stated objective.

The "fire Acheson" resolution which the Republicans pondered appears to have succeeded in achieving the objective of preventing the Truman Administration from going along with the British on a "compromise" with the Chinese Communists. With that achievement, it was put on ice until circumstances may make its revival propitious. It is the first time Senate Republicans ever have been able to exercise an important influence on foreign policy in years.

Entirely missed by the public generally was the attitude of Senate Banking Committee members toward labor in the forthcoming war effort. The attitude was revealed in the questioning of Stew Symington's boy, Dr. Alan Valentine, when the latter was up for confirmation for the job of Economic Stabilization Administrator.

Senators A. Willis Robertson (D., Va.), Irving M. Ives (R., N. Y.), and Homer E. Capehart (R., Ind.) sought with unusual vigor to draw Dr. Valentine out on such subjects as these: Would he let labor wage increases run their complete course before imposing wage and price control? Would he, say, impose price control on steel but avoid rolling back the wage boost which precipitated it? Would he ever roll back wages if he rolled back prices? How much of this war's production is to be paid time and one-half, double time, and even "triple time?" What would Dr. Valentine do about escalator clauses providing for automatic cost-of-living and other automatic wage increases?

Needless to say, the Senators got no answers, for Dr. Valentine proved to be as capable of slipping away from answering questions as the most experienced bureaucrat. What was revealed, however, was a grim determination by Senators that labor shall not get away with as much in whatever this war is, as it did in the last. "Liberals" on the committee did not particularly rise to organized labor's defense.

* * *

Something new is about to be tried out, and reportedly on a very large scale, involving perhaps hundreds of millions of commitments to be announced before long.

That is the decision to use the V-Loan for guaranteeing loans to finance war production facilities —entirely new war plants, additions to existing factories for war production purposes, or the installation of industrial machinery.

V-loans were originated in World War II. The arrangement is that when one of the authorized procuring agencies, such as the Army, Air Force, or Navy, wants a plant or addition built for a war purpose, it will offer to guarantee the loan for construction of the facility. Then a bank, insurance company, or other authorized lender would advance the cash. The Federal Reserve Banks and branches would handle these guarantees as agents for the procuring services.

During World War II V-loans were used for financing war production contracts and sub-contracts. They were particularly useful for small contractors whose outlying local banks could not make the loans without a guarantee because such loans would exceed a prudent ratio to their total assets, or regulations limiting the sums which could be advanced to a single borrower.

They will still be used for this purpose, but also for financing construction or acquisition of industrial facilities.

Gov. James K. Vardaman, Jr., of the Federal Reserve Board spark-plugged the idea which was heartily agreed to by Mr. Symington and the secretaries of all the defense and other procuring departments.

This plan is said to have a number of advantages. For one thing the decision as to the capability and credit competence of a borrower will be made in the first instance by a local lending institution familiar with the borrower, rather than by some remote bureaucrat in Washington, or some half-baked regional government lending officer.

Second, the very considerable credit and business judgment of the Federal Reserve Banks and branches will be utilized.

Third, it may avoid re-creating some such agency as the RFC's Defense Plant Corp., which furnished the capital for many war factories.

Finally, it will reduce the magnitude of a further postwar plant disposal problem. During World War II factories built with government funds were leased. If the lessee did not choose to purchase them after the war, they reverted to the government for disposal. Under the new plan the borrowers would be owners, subject to mortgage. After they repaid the mortgage, they would become full owners.

Possible objections to the plan are first, that many banks will hesitate to make these facility loans because of their term. Most V-loans were for periods of less than five years. Facilities will probably run for upward of five years. Second, many industrialists may hesitate at the outset to take ownership of plants whose special war production purposes will not augur well for the full peacetime use of those facilities.

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(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ

"What's the meaning of this insubordination, Twittle —where's your hat?"